ENGLOBAL CORP
Form 10-K
March 10, 2011
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File No. 001-14217
ENGlobal Corporation
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Nevada<br>(State or other jurisdiction of incorporation or organization) | 88-0322261<br>(I.R.S Employer Identification No.) |
| 654 North Sam Houston Parkway East, Suite 400<br>(Address of principal executive offices) | 77060-5914<br>(Zip code) |

Registrant's telephone number, including area code: (281) 878-1000
Securities registered pursuant to Section 12(b) of the Exchange Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $0.001 par value | NASDAQ |

Securities registered pursuant to Section 12(g) of the Exchange Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act
Yes No X

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

X

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes No X

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on December 31, 2010 was $84,353,375 (based upon the closing price for shares of common stock as reported by the NASDAQ on that date).

The number of shares outstanding of the registrant's common stock on March 1, 2011 is as follows:
$0.001 Par Value Common Stock 26,676,279 shares

Documents incorporated by reference
Responses to Items 10, 11, 12, 13 and 14 of Part III of this report are incorporated herein by reference to certain information contained in the Company's definitive proxy statement for its 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 29, 2011.

2

ENGlobal Corporation
2010 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS


PART I

| | | PAGE |
|---|---|---|
| ITEM 1. | BUSINESS | 4 |
| ITEM 1A. | RISK FACTORS | 20 |
| ITEM 1B. | UNRESOLVED STAFF COMMENTS | 26 |
| ITEM 2. | PROPERTIES | 26 |
| ITEM 3. | LEGAL PROCEEDINGS | 27 |

PART II

| | | |
|---|---|---|
| ITEM 5. | MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES | 28 |
| ITEM 6. | SELECTED FINANCIAL DATA | 31 |
| ITEM 7. | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 33 |
| ITEM 7A. | QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 53 |
| ITEM 8. | FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA | 55 |
| ITEM 9. | CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE | 88 |
| ITEM 9A. | CONTROLS AND PROCEDURES | 88 |

PART III

| | | |
|---|---|---|
| ITEM 10. | DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE | 90 |
| ITEM 11. | EXECUTIVE COMPENSATION | 90 |
| ITEM 12. | SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS | 90 |
| ITEM 13. | CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE | 90 |
| ITEM 14. | PRINCIPAL ACCOUNTING FEES AND SERVICES | 90 |

PART IV

| | | |
|---|---|---|
| ITEM 15. | EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES | 91 |

SIGNATURES

| | | |
|---|---|---|
| | SIGNATURES | 97 |

# PART I

## CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (“Report”), including “Management's Discussion and Analysis of Financial Condition and Results of Operations,” as well as oral statements made by the Company and its officers, directors or employees, contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such forward-looking statements are based on Management's beliefs, current expectations, estimates and projections about the industries that the Company and its subsidiaries' serve, the economy and the Company in general. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate” and similar expressions are intended to identify such forward-looking statements; however, this Report also contains other forward-looking statements in addition to historical information. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from historical results or from any results expressed or implied by such forward-looking statements. The Company cautions readers that the following important factors and the risks described in the section of this report entitled “Risk Factors,” among others, could cause the Company's actual results to differ materially from the forward-looking statements contained in this Report: (i) the effect of changes in the business cycle and downturns in local, regional and national economy and our ability to respond appropriately to the current worldwide economic financial situation; (ii) our ability to collect accounts receivable in a timely manner; (iii) our ability to accurately estimate costs and fees on fixed-price contracts; (iv) the effect of changes in laws and regulations with which the Company must comply, and the associated costs of compliance with such laws and regulations, either currently or in the future, as applicable; (v) the effect of changes in accounting policies and practices as may be adopted by regulatory agencies, as well as by the Financial Accounting Standards Board; (vi) the effect of changes in the Company's organization, compensation and benefit plans; (vii) the effect on the Company's competitive position within its market area in view of, among other things, the increasing consolidation within its services industries, including the increased competition from larger regional and out-of-state engineering and professional service organizations; (viii) the effect of increases and decreases in oil prices; (ix) the availability of parts from vendors; (x) our ability to increase or renew our line of credit; (xi) our ability to identify attractive acquisition candidates, consummate acquisitions on terms that are favorable to the Company and integrate the acquired businesses into our operations; (xii) our ability to hire and retain qualified personnel; (xiii) our ability to retain existing customers and get new customers; (xiv) our ability to mitigate losses; (xv) our ability to achieve our business strategy while effectively managing costs and expenses; (xvi) our ability to estimate exact project completion dates; (xvii) our ability to effectively monitor business done outside of the United States; and (xviii) the performance of the energy sector. The Company cautions that the foregoing list of important factors is not exclusive. We are under no duty and have no plans to update any of the forward-looking statements after the date of this Report to conform such statements to actual results.

## ITEM 1. BUSINESS

### Overview

ENGlobal Corporation (which may be referred to as “ENGlobal,” the “Company,” “we,” “us” or “our”), incorporated in the Sta of Nevada in June 1994, is a leading provider of engineering and professional services principally to the energy sector. ENGlobal's net revenue from continuous operations has grown from $89.1 million in 2002 to $320.6 million in 2010, a compounded annual growth rate of approximately 17.4%, even after taking into account significant declines in 2009 and 2010. We have accomplished this growth by expanding our engineering and professional service capabilities and our geographic presence through internal growth, including new initiatives, and through a series of strategic acquisitions.

We now have about 2,030 full-time equivalent employees in 15 offices located in the following cities: Houston, Beaumont and Freeport, Texas; Baton Rouge and Lake Charles, Louisiana; Tulsa, Oklahoma; Denver, Colorado; Mobile, Alabama; and Chicago, Illinois.

ITEM 1. BUSINESS (continued)

The Engineering and Construction Segment

The Engineering and Construction 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. Services provided by the Engineering and Construction segment include feasibility studies, engineering, design, procurement and construction management. The Engineering and Construction segment includes the technical services group, which provides engineering, design, installation and operation and maintenance of various government, public sector and international facilities.

The Automation Segment

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.

The Field Solutions Segment

The Field Solutions segment provides inspection, land management, right-of-way, environmental compliance, legislative affairs support and governmental regulatory compliance services primarily to the midstream sector, including pipeline, utility and telecom companies and other owner/operators of infrastructure facilities throughout the United States.

Available Information

We are currently subject to the information reporting requirements of the Securities Exchange Act and we file annual, quarterly and special reports and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at http://www.sec.gov. Our SEC filings are also available at our website at www.englobal.com. You may also read and copy any document we file at the SEC's public reference room at 100 F. Street, N.E., Washington, D.C. 20002. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

ENGlobal Website

You can find financial and other information about ENGlobal at the Company's website at the URL address www.englobal.com. Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are provided free of charge through the Company's website and are available as soon as reasonably practicable after filing electronically or otherwise furnishing reports to the SEC. Information relating to corporate governance at ENGlobal, including: (i) our Code of Business Conduct and Ethics for all of our employees, including our Chief Executive Officer and Chief Financial Officer; (ii) our Code of Ethics for our Chief Executive Officer and Senior Financial Officers; (iii) information concerning our Directors and our Board Committees, including Committee charters; and (iv) information concerning transactions in ENGlobal securities by Directors and officers, is available on our website under the Investor Relations link. Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K. We will provide any of the foregoing information, for a reasonable fee, upon written request to Investor Relations, ENGlobal Corporation, 654 North Sam Houston Parkway East, Suite 400, Houston, Texas 77060-5914.

ITEM 1. BUSINESS (continued)

Business Segments

Our segments are strategic business units that offer different services and products and therefore require different marketing and management strategies. In addition to internal growth, our segments have grown through strategic acquisitions, which have also served to augment management expertise. During the first two quarters of 2010, the Company managed and reported through four business segments: Engineering, Construction, Automation and Land. In May 2010, the Company hired a new CEO. The CEO, as the Chief Operating Decision Maker, has assessed the Company's business organization and management structure, resulting in management changes, a new focus on specific types of work and reorganization of integrated functions within the Company. In response to these changes, we reevaluated our reportable segments. As a result, we elected to realign our reporting into three segments: Engineering, Automation and Land. Services we offered under the previous Construction segment were merged into our current reporting segments. During the fourth quarter of 2010, we renamed our operating segments to Engineering and Construction, Automation and Field Solutions. The decision was based on a number of factors, including management's view of how various Company activities performed integrated functions and their view of the inter-company activity between each of the components of the Company's business.

| | Percentage of Revenue | | | | | |
|---|---|---|---|---|---|---|
| Segments | 2010 | | 2009 | | 2008 | |
| Engineering and Construction | 50.2 | % | 44.7 | % | 53.8 | % |
| Automation | 20.0 | % | 21.1 | % | 12.1 | % |
| Field Solutions | 29.8 | % | 34.2 | % | 34.1 | % |
| | 100.0 | % | 100.0 | % | 100.0 | % |

Engineering and Construction Segment

| | Selected Financial Data | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (amounts in thousands) | | |
| Revenue | $161,101 | $153,675 | $265,331 |
| Operating profit | $(5,672) | $4,597 | $33,458 |
| Total assets | $53,333 | $53,689 | $76,193 |

General

The Engineering and Construction segment provides services relating to the development, management and execution of projects requiring professional engineering and related project services. Our Engineering and Construction segment offers engineering services primarily to clients in the midstream and downstream sectors throughout the United States.

ENGlobal's engineering staff has the capability of developing a project from the initial planning stages through detailed design and construction management. Our services include:

- conceptual studies;
- project definition;
- cost estimating;
- engineering design;
- environmental compliance;
- material procurement;
- project management:
- facility inspection; and
- construction management.

6

ITEM 1. BUSINESS (continued)

The Engineering and Construction segment offers a wide range of services as a single source provider.

The Engineering and Construction segment currently operates through ENGlobal's wholly-owned subsidiaries, ENGlobal U.S., Inc. and ENGlobal Government Services, Inc. ENGlobal U.S., Inc. focuses primarily on providing its services to the upstream, midstream and downstream segments of the oil and gas industry, utilities and alternative energy developers. It also provides its services via in-plant personnel assigned to client locations throughout the United States. ENGlobal U.S., Inc. also focuses on energy infrastructure projects in the United States by offering personnel and services primarily in the areas of construction, construction management, process plant turnaround management, plant asset management, commissioning and start-up.

As a service-based business, the Engineering and Construction segment is more labor than capital intensive. Our results primarily depend on our ability to generate revenue and collect cash under time-and-material contracts in excess of any cost for employees and benefits, material, equipment and subcontracts, plus our selling, general and administrative (SG&A) expenses.

As a result of dramatic decreases in prices for energy commodities, lower profit spreads for downstream operators and a more difficult financing environment, we experienced a dramatic decrease in spending by the majority of our clients during 2009 and 2010. This reduction is most evident in the domestic refining and petrochemical industries, with much of our work in this area now consisting of maintenance, small capital retrofit and regulatory and compliance driven work. Competition has also increased greatly for the limited amount of project work on the market. However, for the most part, clients have chosen to defer new capital projects into future years, as opposed to canceling projects outright.

In August 2009, the Company acquired the operations of PCI Management and Consulting Company (“PCI”), a private Illinois based power consulting business. PCI provides engineering and project management services, specializing in projects related to steam and power generation, substation design, fuel conversions and the transmission and distribution of energy. These services complement the other services historically provided by our Engineering and Construction segment and have provided expertise on engineering biomass power plants for the renewable energy and pulp and paper industries. ENGlobal now serves as the owner's engineer to provide project management and asset management services concerning the acquisition, restart, commissioning and operation of the plants.

The Engineering and Construction segment has existing blanket service contracts under which it provides clients either with services on a time-and-material basis or with services on a fixed-price basis. The Company strives to establish longer term “alliance” or “preferred provider” relationships with its clients that can be expected to provide a steadier stream of work. In addition, this segment provides outsourced personnel to ENGlobal clients, a service offered intended to contribute to a more stable business mix for the Company. Our Engineering and Construction segment operates out of offices in Baton Rouge and Lake Charles, Louisiana; Beaumont, Houston and Freeport, Texas; Tulsa, Oklahoma; Chicago, Illinois; and Denver, Colorado.

ENGlobal Government Services, Inc. primarily provides automated fuel handling systems and maintenance services to branches of the U.S. military and public sector entities. Other clients of this division are government agencies, refineries, petrochemical and process industry customers worldwide. The Government Services group can provide electrical and instrument installation, technical services, on-going maintenance, as well as calibration and repair services.

The Engineering and Construction segment derives revenue primarily from time-and-material fees charged for professional and technical services. We also enter into contracts providing for the execution of projects on a fixed-price basis, whereby some, or all, of the project activities related to engineering, material procurement and construction (EPC) are performed for a fixed-price amount.

ITEM 1. BUSINESS (continued)

Competition

Our Engineering and Construction segment competes with a large number of public and private firms of various sizes, ranging from the industry's largest firms, which operate on a worldwide basis, to much smaller regional and local firms. Many of our competitors are larger than we are and have significantly greater financial and other resources available to them than we do. However, the largest firms in our industry are sometimes our clients, as they perform as program managers for very large scale projects and then subcontract a portion of their work to ENGlobal. We also have many competitors who are smaller than we are and who, as a result, may be able to offer services at more competitive prices.

Competition is primarily centered on performance and the ability to provide the engineering, planning and project execution skills required for completing projects in a timely and cost-efficient manner. The technical expertise of our management team and technical personnel and the timeliness and quality of our support services are key competitive factors.

Automation Segment

| | Selected Financial Data | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (amounts in thousands) | | |
| Revenue | $64,033 | $72,322 | $59,730 |
| Operating profit | $(1,163) | $4,568 | $3,744 |
| Total assets | $24,883 | $23,524 | $36,553 |

General

The Automation segment provides services related to the design, fabrication and implementation of process distributed control and analyzer systems, advanced automation, information technology and heat tracing projects. This segment also designs, assembles, integrates and services control and instrumentation systems for specific applications in the energy and processing related industries. The Automation segment also provides electrical project management to complex commercial and industrial projects, including new construction, solar panels, instrumentation, structured cabling and critical infrastructure, such as emergency generator and backup power installation and service. These services are offered to clients in the petroleum refining, petrochemical, pipeline, production, process and pulp and paper industries throughout the United States and Canada as well as the Middle East and the Caribbean. The Automation segment currently operates through ENGlobal's wholly-owned subsidiary, ENGlobal U.S., Inc. The Automation segment derives revenue from both time-and-material fees and fees charged for professional and technical services on a fixed-price basis. As a service provider, our Automation segment is more labor than capital intensive. The segment's results primarily depend on our ability to accurately estimate costs on fixed-price contracts, generate revenue and collect amounts due under time-and-material contracts in excess of the cost of employees and benefits, material, equipment and subcontracts, plus applicable SG&A expenses.

Our Automation segment operates out of offices in Baton Rouge, Louisiana; Beaumont and Houston, Texas; and Mobile, Alabama.

In April 2010, the Company acquired selected assets of Control Dynamics International, LP (“CDI”), a privately-held automation firm based in Houston, Texas. CDI designs and manufactures industrial automation control systems primarily for the upstream energy industry. CDI offers certain proprietary products, such as the Dolphin$^{TM}$ Universal Master Control Station (MCS), which can be quickly configured to most subsea control projects. CDI also has expertise in blowout preventer control systems, supervisory control and data acquisition systems (SCADA), and Floating Production Storage and Offloading (EPSO) turret override protection systems. The services that CDI provides complement the services currently performed by the Automation segment and will allow ENGlobal to expand further into the upstream market.

ITEM 1. BUSINESS (continued)

In September 2008, the Company purchased Advanced Control Engineering, LLC (“ACE”), a Mobile, Alabama based engineering firm. ACE provides distributed control systems ("DCS") and related technical services primarily to the downstream processing and specialty chemical sectors and its geographic location expands the Automation segment's service territory.

Competition

Our Automation segment competes with a large number of public and private firms of various sizes, ranging from the industry's largest firms, which operate on a worldwide basis, to much smaller regional and local firms. Many of our competitors are larger than we are and have significantly greater financial and other resources available to them than we do. We also have many competitors who are smaller than we are and who, as a result, may be able to offer services at more competitive prices.

Competition is primarily centered on performance and the ability to provide the engineering, assembly and integration required to complete projects in a timely and cost-efficient manner. The technical expertise of our management team and technical personnel and the timeliness and quality of our support services, are key competitive factors.

Field Solutions Segment

| | Selected Financial Data | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (amounts in thousands) | | |
| Revenue | $95,481 | $117,465 | $168,271 |
| Operating profit | $3,673 | $7,475 | $9,901 |
| Total assets | $19,702 | $24,708 | $32,823 |

General

Our Field Solutions segment provides inspection, land management, right-of-way, environmental compliance, legislative affairs support and governmental regulatory compliance services primarily to the midstream sector, including pipeline, utility and telecom companies and other owner/operators of infrastructure facilities throughout the United States and operates through ENGlobal's wholly-owned subsidiary, ENGlobal U.S., Inc. The need to transport new sources of energy is the primary driver that results in demand for our rights-of-way and inspection services (pipelines and electric power transmission lines, as well as the facilities necessary to run these). For example, rights-of-way are required for pipelines that transport oil and gas from imported sources and from newly developed oil reserve basins in the U.S. Rights-of-way are also required for new electric power transmission lines needed to decongest circuits near population centers and to transport a growing amount of wind and solar power located in remote areas. In most cases these rights-of-ways are acquired prior to the construction phase of the project. Once the construction phase of the project commences, ENGlobal provides qualified/certified inspectors through our inspection division. Included within the scope of our inspection services is construction management, welding inspection, coating and lining inspection, valves and assembly, pressure vessels, mechanical and associated plant and field process equipment oversight, structural fabrication, field fabrication, shop fabricated skid packages, turnkey responsibility for third party interpretations, process safety management data, ultrasonic thickness and flaw detection, magnetic particle examination, liquid penetrate examination, hydrostatic testing and pigging, holiday testing and vacuum testing.

The Field Solutions segment derives revenue from time-and-material fees charged for professional and technical services and, as a service company, is more labor than capital intensive. Results for the Field Solutions segment primarily depend on its ability to generate revenue and collect cash under time-and-material contracts in excess of costs for employees and benefits, material, equipment and subcontracts, plus SG&A expenses.

Our Field Solutions segment operates out of offices in Houston, Texas; Denver, Colorado; and Tulsa, Oklahoma, as well as other satellite offices across the United States.

ITEM 1. BUSINESS (continued)

Competition

The Field Solutions segment competes with a range of small and mid-size firms that provide right-of-way mapping, title assistance, appraisals, landowner negotiations and inspection services.

Competition is primarily centered on retaining experienced inspectors, landsmen and other qualified professionals. Inspection personnel must have knowledge of integrity services to serve oil and gas pipelines and related facilities. In addition, inspection specialists must have a thorough understanding of governmental and public regulatory factors, as well as a firm grasp on health and safety issues that are involved in any construction environment. Inspectors must hold certifications for welding, field fabrication and shop fabricated packages, pressure vessels, valves and assemblies and structural fabrication. Land and right-of-way specialists must have a thorough understanding of governmental and public regulatory requirements. These professionals must consider socioeconomic and environmental factors and coordinate planning for the relocation of utilities, displaced persons and businesses. Also, they must often assist in developing replacement housing units, which may involve the expenditure of large sums, condemnation, damages, restriction of access and similar complicating factors. Retaining these qualified, skilled professionals is crucial to the operation of our Field Solutions segment.

Acquisitions and Sales

We have expanded our business over the past several years through both internal initiatives and through strategic mergers and acquisitions. These mergers and acquisitions have allowed us to (i) expand our client base and the range of services that we provide to our clients, (ii) add new technical capabilities that can be marketed to our existing client base, (iii) grow our business geographically, and (iv) capture more of each project's value. We expect to continue to evaluate and assess, on a case-by-case basis, acquisition opportunities that will either complement our existing business base or that will provide ENGlobal with additional capabilities or geographical coverage. However, we believe that actively targeting acquisitions at this time would add additional expense and take additional time and effort away from management and away from the successful execution of our corporate strategy.

ITEM 1. BUSINESS (continued)

The following table lists the businesses we have acquired during the five-year period ended December 31, 2010.

| Name/Location/Business Unit | Date Acquired | Primary Services |
|---|---|---|
| Analyzer Technology International, Inc.<br>Houston, TX<br>Operates as a part of the Automation segment | January 2006 | Process Analyzer Systems |
| WRC Corporation and<br>WRC Canada<br>Denver, CO<br>Operates as a part of the Field Solutions segment | May 2006 | Integrated Land Management |
| Watco Management, Inc.<br>Clearlake, TX<br>Operates as a part of the Engineering and Construction segment | October 2006 | Turnaround Planning<br>Asset Management<br>Project Commissioning Construction Management |
| EMC Design & Consulting, Inc.<br>Houston, TX<br>Operates as a part of the Engineering and Construction segment | September 2008 | Product Terminals<br>Engineering and Design |
| Advanced Control Engineering, LLC<br>Mobile, AL<br>Operates as a part of the Automation segment | September 2008 | Control Systems Engineering and Design |
| PCI Management and Consulting Company<br>Chicago, IL<br>Operates as a part of the Engineering and Construction segment | August 2009 | Electric Power Consulting<br>Construction Management |
| Control Dynamics International, LP<br>Houston, TX<br>Operates as a part of the Automation segment | April 2010 | Industrial Control Systems<br>Manufacturing and Design |

ENGlobal Corporation transitions acquisitions under the ENGlobal brand name as soon as feasible, given the size and scope of the acquisition, but typically within two years. This strengthens ENGlobal's market position as a diversified supplier of engineering and related services and takes advantage of ENGlobal's reputation for quality in all of the services the Company provides. Smaller acquisitions are almost immediately identified as a division of an existing segment.

Business Strategy

Our objective is to strengthen the Company's position as a leading full service provider of services to the energy industry by enhancing our overall range of capabilities in the areas of engineering and construction, automation and field solutions services. In October 2010, our Executive Management Team developed ENGlobal's 2011-2012 Strategic Plan which included the creation of a new Mission Statement and Vision Statement and identified specific values that are core to the Company's culture (Core Values).

The strategic plan process produced a number of defined tactics with schedules and executive commitment towards their implementation. The purpose of developing ENGlobal's strategy was two-fold: management wanted to (1) define and focus the Company in a single direction; and (2) establish the foundation of a team culture that is critical to ENGlobal's success.

ITEM 1. BUSINESS (continued)

Considerable effort was put forth to revise the Company's Mission Statement, Vision Statement and published core values. We analyzed ENGlobal's strengths, weaknesses, opportunities and threats to provide a basis for the development of the strategic plan. We also performed an in-depth review of core competencies, key business drivers, business environment and our customers/partners, suppliers/vendors and competitors.

ENGlobal's new Vision Statement is: “ENGlobal is a preferred provider, delivering innovative and technical solutions to clients globally.”

Our new Mission Statement is: “ENGlobal safely delivers engineered solutions that ensure success for all stakeholders, while demonstrating good stewardship of the world around us.” Health, Safety and Environmental was highlighted as the most important aspect of our business; therefore, it is mentioned first. Also, we defined 'stakeholders' as our stockholders, our clients and our employees and their families. Finally, ENGlobal recognized the importance of conservation, while making the best use of our resources and the environment by the way we conduct business.

ENGlobal's culture and its priorities revolve around its Core Values, which were also updated during the strategic planning process. We believe the following Core Values help drive the desired direction of our Company culture:

- Health Safety Environmental (HSE)
- Integrity
- Teamwork
- Accountability
- Quality
- Communication

Like our Mission Statement, HSE is listed first. We want the new emphasis on HSE to spread beyond our employees and we hope people will take this new emphasis into their homes, neighborhoods and communities.

Our goal was to establish ENGlobal's future direction. ENGlobal wants to grow by becoming an industry-leader, a company where people want to work and a preferred provider to our clients. We addressed our core business, operational and financial performance, culture, reputation, end markets and segment business plans. Five critical success factors were developed to ensure that the areas of focus could be implemented and corresponding tactics could be evaluated.

1. Clear Strategic Focus
2. Ecstatic Clients
3. Project Execution Excellence
4. Industry-Leading HSE Performance
5. Employer of Choice

Ultimately, five strategies were developed and assigned specific strategy statements. They are:

1. People - “Develop and implement a comprehensive People Management Process.” Our aspiration to become the Employer of Choice mandates that we address our People as a top priority.

2. Markets - “Grow project backlog by becoming the preferred provider through strong client relationships.” ENGlobal is able to create loyal customers by focusing on a long-term, client-focused business that is driven by strong relationships at all levels of the organization.

3.

Project Execution - “Deliver consistently controlled project excellence.” Once complete, we will be able to share work between office locations more freely and enable more of our People to cross over business segments on projects, both of which will bring more stability to our business.

ITEM 1. BUSINESS (continued)

4. Business Management - “Proactively manage the business with proper tools, resources and processes.” ENGlobal plans to build accountability for the successful execution of the annual business plans and will regularly review underperforming businesses and offices to ensure that we are focusing our resources properly.

5. Culture - “Create a company-wide culture that excites ENGlobal personnel.” We will proactively involve our employees to promote an improved company culture.

During this process, ENGlobal made a concerted effort to focus our strategies internally, while ensuring that our business development group was empowered to sell our capabilities across all business groups with special attention to our key client relationships.

Sales and Marketing

ENGlobal derives revenue primarily from three sources: (1) business development, (2) preferred provider/alliance agreements with strategic clients, and (3) referrals from existing customers and industry members. We currently employ 22 full-time professional in-house marketers in business development.

Our Senior Vice President of Business Development supervises our in-house business development assigned to clients and territories within the United States. Client relationships are nurtured by our geographic advantage of having office locations near our larger customers. By having clients in close proximity, we are able to provide single, dedicated points of contact. Our growth depends not only on the world economic situation but also, in large measure, on our ability to attract and retain qualified business development managers and business development personnel with a respected reputation in the energy industry. Management believes that in-house marketing allows for more accountability and control, thus increasing profitability.

Our business development focuses on building long-term relationships with customers and clients with solutions throughout the life-cycle of their facilities. Additionally, we seek to capitalize on cross-selling opportunities among our various segments - Engineering and Construction, Automation and Field Solutions. Sales leads are often jointly developed and pursued by the business development personnel from these various segments.

We have also formed relationships with international companies with the plan to partner on select international projects. However, we will only pursue international opportunities if we believe the risk profile is appropriate. Additionally, ENGlobal expects to primarily provide services for international clients from its U.S. offices rather than opening offices overseas. Finally, since our clients typically consist of large integrated oil and gas companies with worldwide business operations, we will attempt to leverage our existing client relationships to showcase our capabilities for their international projects.

Products and services are also promoted through trade advertising, participation in industry conferences and on-line Internet communication via our corporate home page at www.englobal.com. The ENGlobal site provides information about our three operating segments and illustrates our Company's full range of services and capabilities. We use internal and external resources to maintain and update our website on an ongoing basis. Through the ENGlobal website, we seek to provide visitors and investors with a single point of contact for obtaining information about ENGlobal's services.

ENGlobal develops preferred provider/alliance agreements with clients in order to facilitate repeat business. These preferred provider agreements, also known as master services agreements or umbrella agreements, are typically two to three years in length. Although the agreement is not a guarantee for work under a certain project, ENGlobal generally offers a slightly reduced billing structure to clients willing to commit to arrangements that are expected to provide a steady stream of work. With the terms of the contract settled, add-on projects with these customers are easier to negotiate. Management believes that these agreements can serve to stabilize project-centered operations in the engineering and construction industry.

ITEM 1. BUSINESS (continued)

Much of our business is repeat business and we are introduced to new customers in many cases by referrals from existing customers and industry members. Management believes referral marketing provides the opportunity for increased profitability because referrals do not involve direct selling. Rather, they allow satisfied customers to sell our services and products on our behalf. ENGlobal strives to develop our clients' trust, and then benefits by word-of-mouth referrals.

Our past acquisition program has provided the benefit of expanding our existing customer base. Management believes that cross-selling among our businesses is an effective way to build client loyalty by solidifying the client relationship, thereby reducing attrition and increasing the lifetime profitability of each project. The Company also believes that cross-selling can help ensure more predictable revenue and can be a cost effective way to grow our business.

Customers

Our customer base consists primarily of Fortune 500 companies in the energy industry. While we do not have continuing dependence on any single client or a limited group of clients, one or a few clients may contribute a substantial portion of our revenue in any given year or over a period of several consecutive years due to major projects. ENGlobal may work for many different subsidiaries or divisions of our clients, which involves multiple parties to material contracts. The loss of a single contract award would not likely have a material impact on our financial statements but the loss of a single large customer would likely have such an effect. In 2011, the Company will continue to focus substantial attention on improving customer services in order to enhance satisfaction and increase customer retention.

Revenue generated through sources such as in-plant staffing and preferred provider relationships are longer-term in nature and are not typically limited to one project. For example, our Engineering and Construction segment provides outsourced technical and other personnel that are assigned to work at client locations. In the past, these assignments often span multiple projects and multiple years, and although these engagements involve a lower margin, they help contribute to a steady stream of work.

A major long-term trend among our clients and their industry counterparts has been outsourcing engineering services. This trend has fostered the development of ongoing, longer-term client arrangements, rather than one-time limited engagements. These arrangements vary in scope, duration and degree of commitment. While there is typically no guarantee of work that will result from these agreements, often they form the basis for a longer-term client relationship. Despite their variety, we believe that these partnering relationships have a stabilizing influence on our revenue. These engagements may provide for any of the following:

- a minimum number of work man-hours over a specified period;
- the provision of at least a designated percentage of the client's requirements;
- the designation of the Company as the client's sole or preferred source of engineering at specific locations; or
- a non-binding preference or intent, or a general contractual framework, for what the parties expect will be an ongoing relationship.

Overall, our ten largest customers, who vary from one period to the next, accounted for 53% of our total revenue for 2010, 50% of total revenue for 2009 and 62% of total revenue for 2008. Most of our projects are specific in nature and we generally have multiple projects with the same clients. If we were to lose one or more of our significant clients and were unable to replace them with other customers or other projects, our business would be materially adversely affected. Our top three clients in 2010 were ExxonMobil, Spectra Energy and Anadarko. Even though we frequently receive work from repeat clients, our client list may vary significantly from year to year. We continue to see a change in our business mix year over year, depending on the ability of our mid-size and developer clients to obtain funding for their projects. Our potential revenue in all segments is dependent on continuing relationships with our customers.

14

ITEM 1. BUSINESS (continued)

Engineering and Construction Segment:

In the Engineering and Construction segment, our ten largest customers vary from one year to the next. These customers accounted for 73% of our total revenue for 2010, 67% of total revenue for 2009 and 74% of total revenue for 2008. This segment's top three clients in 2010 were ExxonMobil, Anadarko and BASF Corporation.

Although the Engineering and Construction segment frequently receives work from repeat clients, its client list may vary significantly from year to year. In order to generate revenue in future years, we must continue efforts to obtain new engineering and construction management projects. The Engineering and Construction segment generates the majority of its revenue through in-plant staffing, construction related personnel at field locations and client relationships that we consider longer-term in nature and that are not typically limited to one project.

Automation Segment:

In the Automation segment, our ten largest customers vary from one year to the next. These customers accounted for 62% of our total revenue for 2010, 76% of total revenue for 2009 and 66% of total revenue for 2008. This segment's top three clients in 2010 were Emerson Process Management, Conoco Phillips and Fluor Daniel. Total foreign customers accounted for 2% of our Automation segment revenue for 2010, 12% of Automation segment revenue for 2009 and 14% of Automation segment revenue for 2008. During 2010, less than 1% of our revenue came from our Canadian operations compared to 3% in 2009 and 4% in 2008. We closed our Calgary office in 2010.

Although the Automation segment frequently receives work from repeat clients, its client list may vary significantly from year to year. The Automation Segment's clients are primarily in the downstream process industries, and their needs result primarily from requirements to upgrade obsolete distributed control systems or process analytical equipment. We also provide industrial electrical maintenance services, expert supervision and craft labor to our clients in downstream power generation facilities.

Field Solutions Segment:

In the Field Solutions segment, our ten largest customers vary from one year to the next. These customers accounted for 78% of our total revenue for 2010, 77% of total revenue for 2009 and 83% of total revenue for 2008. Our top three clients in 2010 were Spectra Energy, Ruby Pipeline and Magellan Midstream Partners. The Field Solutions segment's clients currently consist primarily of pipeline operators or electric utilities, with both types of clients having needs to acquire rights-of-way for pipelines or electric transmission.

Though the Field Solutions segment frequently receives work from repeat clients, its client list may vary significantly from year to year with outsourced right-of-way, inspectors and other personnel assigned to work at project sites across the United States. Factors affecting our Field Solutions business that are beyond our control include client spending, regulatory requirements, title assistance, landowner negotiations and eminent domain-condemnation proceedings.

ITEM 1. BUSINESS (continued)

Contracts

We generally enter into two principal types of contracts with our clients: time-and-material contracts and fixed-price contracts. Our mix of net revenue between time-and-material and fixed-price contracts is shown in the table below. Our clients typically determine the type of contract to be utilized for a particular engagement, with the specific terms and conditions of a contract resulting from a negotiation process between the Company and our client.

| | Time-and-material (revenue in thousands) | % | | Fixed-price | % | |
|---|---|---|---|---|---|---|
| Engineering and Construction | $147,294 | | | $13,807 | | |
| Automation | 24,559 | | | 39,474 | | |
| Field Solutions | 95,399 | | | 82 | | |
| Total company | $267,252 | 83.4 | % | $53,363 | 16.6 | % |

- Time-and-Material. Under our time-and-material contracts, we are paid for labor at either negotiated hourly billing rates or we are reimbursed for allowable hourly rates and other expenses. We are paid for material and contracted services at an agreed upon multiplier of our cost, and at times we pass non-labor costs for equipment, materials and subcontractor services through with no profit. Profitability on these contracts is driven by billable headcount, the amount of non-labor related services and cost control. Many of these contracts have upper limits, referred to as “not-to-exceed” amounts. Generally, our scope is not defined under a “not-to-exceed” agreement, and we are not under any obligation to provide services beyond the limits of the contract, but if we generate costs and billings that exceed the upper limits of the contract ceiling or are not allowable, we may be unable to obtain reimbursement for the excess cost. Further, the continuation of each contract partially depends upon the customer's discretionary periodic assessment of our performance on that contract.

- Fixed-Price. Under a fixed-price contract, sometimes referred to as “guaranteed maximum,” we provide the customer a total project for an agreed-upon price, subject to project circumstances and changes in scope. Fixed-price projects vary in scope, including some engineering activities and related services, and responsibility for procurement of material and construction. Fixed-price contracts carry certain inherent risks, including risks of losses from underestimating costs, delays in project completion, problems with new technologies, the impact of the economy on labor shortages, increases in equipment and materials costs, natural disasters, and other events and changes that may occur over the contract period. Another risk is our ability to secure written change orders prior to commencing work on contract changes in scope, without which we may not receive payment for work performed. Consequently, the profitability of fixed-price contracts may vary substantially.

Backlog

Backlog represents gross revenue of all awarded contracts that have not been completed and will be recognized as revenue over the life of the project. Although backlog reflects business that we consider to be firm, cancellations or scope adjustments may occur. Further, most contracts with clients may be terminated at will, in which case the client would only be obligated to us for services provided through the termination date. We have adjusted backlog to reflect project cancellations, deferrals and revisions in scope and cost (both upward and downward) known at the reporting date; however, future contract modifications or cancellations may increase or reduce backlog and future revenue. As a result, no assurances can be given that the amounts included in backlog will ultimately be realized. In addition, it is not clear how our backlog will be impacted by current or future economic conditions.

At December 31, 2010, our backlog was $244.2 million compared to an estimated $227.0 million at December 31, 2009. We expect a majority of the $244.2 million in backlog to be completed during 2011.

ITEM 1. BUSINESS (continued)

The backlog at December 31, 2010 consists of $226.1 million with commercial customers and $18.1 million with the United States government. Backlog on federal programs includes only the portion of the contract award that has been funded. The backlog for each of our segments at December 31, 2010 was as follows:

| | | |
|---|---|---|
| Engineering and Construction segment | $113.0 | million |
| Automation segment | 16.0 | million |
| Field Solutions segment | 115.2 | million |

Backlog includes gross revenue under two types of contracts: (1) contracts for which work authorizations have been received on a fixed-price basis or time-and-material projects that are well defined, and (2) time-and-material evergreen contracts at an assumed 12 month run-rate, under which we place employees at our clients' site to perform day-to-day project efforts. There is no assurance as to the percentage of backlog that will be recognized under either type of contract.

Customer Service and Support

We provide service and technical support to our customers in varying degrees depending upon the business line and on customer contractual arrangements. The Company's technical staff provides initial telephone support services for its customers. These services include isolating and verifying reported failures and authorizing repair services in support of customer requirements. We also provide on-site engineering support if a technical issue cannot be resolved over the telephone. On projects for which we have provided engineered systems, we provide on-site factory acceptance tests and worldwide start-up and commissioning services. We also pass through the manufacturers' limited warranty coverage for products we re-sell.

Dependence Upon Suppliers

Our ability to provide clients with services and systems in a timely and competitive manner depends on the availability of products and parts from our suppliers at competitive prices and on reasonable terms. Our suppliers are not obligated to have products on hand for timely delivery nor can they guarantee product availability in sufficient quantities to meet our demands. There can be no assurance that we will be able to obtain necessary supplies at prices or on terms we find acceptable. However, in an effort to maximize availability and maintain quality control, we generally procure components from multiple distributors on our clients' behalf and in some cases we can take advantage of national agreements our clients may have entered into.

For example, all of the product components used by our Automation segment are fabricated using components and materials that are available from numerous domestic manufacturers and suppliers. There are approximately five principal suppliers of distributed control systems, each of which can be replaced by an equally viable competitor, and our clients typically direct the selection of their preferred supplier. No one manufacturer or vendor provides products that account for more than 2% of our revenue. Thus, we anticipate little or no difficulty in obtaining components in sufficient quantities and in a timely manner to support our manufacturing and assembly operations. Units produced through the Automation segment are normally not produced for inventory and component parts; rather, they are typically purchased on an as-needed basis. By being relatively vendor neutral, ENGlobal is able to provide quality technology and platforms for the design of plant systems such as 3D modeling, process simulation and other technical applications.

Despite the foregoing, our Automation segment relies on certain suppliers for necessary components and there can be no assurance that these components will continue to be available on acceptable terms. If a vendor does not continue to contract with us, it may be difficult to obtain alternative sources of supply without a material disruption in our ability to provide products and services to our customers. While we do not believe that such a disruption is likely, if it did occur, it could have a material adverse effect on our financial condition and results of operations.

ITEM 1. BUSINESS (continued)

## Patents, Trademarks, Licenses

Our success depends in part upon our ability to protect our proprietary technology, which we do primarily through protection of our trade secrets and confidentiality agreements. In addition, the U.S. Patent and Trademark Office registered our "Integrated Rack™" patent application in 2008.

Our trade names are protected by registration as well as by common law trademark rights. Our trademark for the use of "ENGlobal®" in connection with our products is registered with the U.S. Patent and Trademark Office and we claim common law trademark rights for "ENGlobal™" in connection with our services. We also have pending trademark applications for "Engineered for Growth®" and we claim common law trademark rights for "Global Thinking…Global Solutions™", "CARES - Communicating Appropriate Responses in Emergency Situations™", "Flare-Mon™", "Purchased Data™", "viMAC™", "ENGlobal Vu™", "riFAT™", and "ENGlobal Power Islands™".

There can be no assurance that the protective measures we currently employ will be adequate to prevent the unauthorized use or disclosure of our technology, or the independent third party development of the same or similar technology. Although our competitive position to some extent depends on our ability to protect our proprietary and trade secret information, we believe that other factors, such as the technical expertise and knowledge base of our management and technical personnel, as well as the timeliness and quality of the support services we provide, will also help us to maintain our competitive position.

## Government Regulations

ENGlobal and certain of our subsidiaries are subject to various foreign, federal, state, and local laws and regulations relating to our business and operations, and various health and safety regulations established by the Occupational Safety and Health Administration (OSHA). The Company and our professional staff are subject to a variety of state, local and foreign licensing, registration and other regulatory requirements governing the practice of engineering and other professional disciplines. For example, OSHA requires Process Safety Management to prevent the release of hazardous chemicals, the Department of Transportation (DOT) requires that pipeline operators are in full compliance with pipeline safety regulations, and the Environmental and Protection Agency (EPA) provides incentives to reduce chemical emissions. Currently, we are not aware of any situation or condition relating to the regulation of the Company, its subsidiaries, or personnel that we believe is likely to have a material adverse effect on our results of operations or financial condition.

## Employees

As of December 31, 2010, the Company and its subsidiaries employed 2,030 individuals. Of these employees, 932 were employed in engineering and related positions, 496 were employed as inspectors, 45 were employed as project support staff, 442 were employed in technical production positions, 90 were employed in administration, finance and management information systems and 25 were employed in sales and marketing. We believe that our ability to recruit and retain highly skilled and experienced technical, sales and management personnel has been and will continue to be critical to our ability to execute our business plan. None of our employees is represented by a labor union or is subject to a collective bargaining agreement. We believe that relations with our employees are good.

ITEM 1. BUSINESS (continued)

Benefit Plans

ENGlobal sponsors a 401(k) profit sharing plan for its employees. Until January 2009, the Company made matching contributions equal to 66.66% of employee contributions up to 6% of employee compensation for regular (as distinguished from project or contract) employees. All other employees except our inspection personnel were matched at 50% of employee contribution up to 6% of compensation, as defined by the plan. The Company, at the direction of the Board of Directors, may make other discretionary contributions. Our employees may elect to make contributions pursuant to a salary reduction agreement upon meeting age and length-of-service requirements. On January 1, 2009, due to economic conditions, the Company elected to reduce its match on regular employees to 50% and all other employees except our pipeline inspectors to 33.33% of employee contributions up to 6% of employee compensation. On April 4, 2009, the Company elected to suspend its match to all employees. The Company made contributions of approximately $0, $982,000, and $3,049,000, respectively, for the years ended December 31, 2010, 2009, and 2008.

Geographic Areas

In 2005, the Company formed ENGlobal Canada ULC, located in Calgary, Alberta to expand our Automation segment into Canada. In 2006, we acquired WRC Corporation and its subsidiary, WRC Canada, to expand our Field Solutions segment into Canada. While this gives us opportunities for expansion, our Canadian operations are small in comparison to the Company as a whole and have declined in size since their inception. In 2010, the Company dissolved WRC Canada and closed its office in Calgary, Alberta. Even though ENGlobal Canada ULC is an active company, we are currently not performing any projects in this region.

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | (dollars in thousands) | | |
| US operations revenue | $320,273 | $341,629 | $490,584 |
| Canadian operations revenue | 342 | 1,833 | 2,748 |
| Total revenue | $320,615 | $343,462 | $493,332 |

Long-lived assets consist of property, plant and equipment, net of depreciation (“PPE”).

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | (dollars in thousands) | | |
| US operations PPE | $4,503 | $5,967 | $5,703 |
| Canadian operations PPE | — | 16 | 41 |
| Total PPE | $4,503 | $5,983 | $5,744 |

ITEM 1A. RISK FACTORS (continued)

ITEM 1A. RISK FACTORS

Set forth below and elsewhere in this Report and in other documents that we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Report. You should be aware that the occurrence of any of the events described in these risk factors and elsewhere in this Report could have a material adverse effect on our business, financial condition and results of operations and that upon the occurrence of any of these events, the trading price of our common stock could decline.

Our future revenue depends on our ability to consistently bid and win new contracts and to maintain and renew existing contracts. Our failure to effectively obtain future contracts could adversely affect our profitability.
Our future revenue and overall results of operations require us to successfully bid on new contracts and renew existing contracts. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which is affected by a number of factors, such as market conditions, financing arrangements and required governmental approvals. For example, a client may require us to provide a bond or letter of credit to protect the client should we fail to perform under the terms of the contract. When negative market conditions arise, or if we fail to secure adequate financial arrangements or required governmental approvals, we may not be able to pursue particular projects, which could adversely affect our profitability. These factors have impacted our operations in the past several years and may continue to do so.

The failure to attract and retain key professional personnel could adversely affect the Company.
Our success depends on attracting and retaining qualified personnel even in an environment where the contracting process is more difficult. We are dependent upon our ability to attract and retain highly qualified managerial, technical and business development personnel so that their services will be available when the economy rebounds. In particular, competition for key management personnel continues to be intense. We cannot be certain that we will retain our key managerial, technical and business development personnel or be able to attract or assimilate key personnel in the future. Failure to attract and retain such personnel would materially adversely affect our businesses, financial position, results of operations and cash flows. This is a major risk factor that could materially impact our operating results.

Our indebtedness could limit our ability to finance future operations or engage in other business activities.
As of December 31, 2010, we had $18.7 million of total outstanding indebtedness against our revolving line of credit, which is currently limited to $25.0 million. We are currently in the process of negotiating an increase to our line of credit. Our inability to successfully negotiate an increase could have an adverse affect to our business.

Significant factors that could increase our indebtedness and/or limit our ability to finance future operations include:

- our ability to meet current credit facility financial ratios and covenants:
- our inability to collect accounts receivable within contractual terms;
- client demands for extending contract payment terms;
- material losses and/or negative cash flows on significant projects; and
- clients' failure to pay our invoices timely due to economic conditions or causes.

Although we believe our line of credit is sufficient to cover current and future business operating requirements, our indebtedness could limit our ability to expand or engage in other business activities. The Company was not in compliance with all covenants under the Wells Fargo Credit Facility as of December 31, 2010; however, Wells Fargo waived its default rights with respect to the breach for the fourth quarter of 2010 only.

ITEM 1A. RISK FACTORS (continued)

We are engaged in highly competitive businesses and must typically bid against competitors to obtain engineering and service contracts.
We are engaged in highly competitive businesses in which customer contracts are typically awarded through competitive bidding processes. We compete with other general and specialty contractors, both foreign and domestic, including large international contractors and small local and regional contractors. Some competitors have greater financial and other resources than we do, which, in some instances, gives them a competitive advantage over us. In addition, smaller contractors may have lower overhead cost which gives them a competitive advantage. In the current economic downturn, the industry has become even more competitive, making the contracting process more difficult than it had been in the past.

Economic downturns may continue to have a negative impact on our businesses.
Demand for the services offered by us has been and is expected to continue to be, subject to significant fluctuations due to a variety of factors beyond our control, including demand for engineering services in the energy industry, and in other industries that we provide services to. During the macroeconomic and industry downturns that have been experienced in the past several years, our customers' need to engage us often declines significantly and projects are often delayed or canceled. These factors, among others, have caused us to incur losses in the past year. We cannot predict how long the current economic downturn will last or when the various sectors of the energy complex will recover.

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. 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. Even if they 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 affect on both our ability to collect receivables and our results of operations.

Our dependence on one or a few customers could adversely affect us.
One or a few clients have in the past and may in the future contribute a significant portion of our consolidated revenue in any one year or over a period of several consecutive years. In 2010, our top three clients, ExxonMobil, Spectra Energy and Anadarko, accounted for approximately 11%, 8% and 6% of our revenue respectively. As our backlog frequently reflects multiple projects for individual clients, one major customer may comprise a significant percentage of our backlog at any point in time. Because these significant customers generally contract with us for specific projects, we may lose them in other years as their projects with us are completed. If we do not continually replace them with other customers or other projects, our business could be materially adversely affected. Also, the majority of our contracts can be terminated at will. We have long-standing relationships with many of our significant customers. Our contracts with these customers, however, are on a project-by-project basis and the customers may unilaterally reduce or discontinue their purchases at any time. The loss of business from any one of such customers could have a material adverse effect on our business or results of operations.

Unsatisfactory safety performance can affect customer relationships, result in higher operating costs and result in high employee turnover.
Our workers are subject to the normal hazards associated with providing services on constructions sites and industrial facilities. Even with proper safety precautions, these hazards can lead to personal injury, loss of life, damage to, or destruction of property, plant and equipment, and environmental damages. We are intensely focused on maintaining a safe environment and reducing the risk of accidents across all of our job sites. However, poor safety performance may limit or eliminate potential revenue streams from many of our largest customers and may materially increase our future insurance and other operating costs. In hiring new employees, we normally target experienced personnel;

however, we also hire inexperienced employees. Even with thorough safety training, inexperienced employees have a higher likelihood of injury which could lead to higher operating costs and insurance rates.

ITEM 1A. RISK FACTORS (continued)

Liability claims could result in losses.
Providing engineering and design services involves the risk of contract, professional errors and omissions and other liability claims, as well as adverse publicity. Further, many of our contracts require us to indemnify our clients not only for our negligence, if any, but also for the concurrent negligence and, in some cases, sole negligence of our clients. We currently maintain liability insurance coverage, including coverage for professional errors and omissions. However, claims outside of or exceeding our insurance coverage may be made. A significant claim could result in unexpected liabilities, take management time away from operations, and have a material adverse impact on our cash flow.

Our business and operating results could be adversely affected by our inability to accurately estimate the overall risks, revenue or costs on a contract.
We generally enter into two principal types of contracts with our clients: time-and-material contracts and fixed-price contracts. Under our fixed-price contracts, we receive a fixed-price irrespective of the actual costs we incur and, consequently, we are exposed to a number of risks. These risks include underestimation of costs, problems with new technologies, unforeseen expenditures or difficulties, delays beyond our control and economic and other changes that may occur during the contract period. Our ability to secure change orders on scope changes and our ability to invoice for such changes poses an additional risk. In 2010, approximately 16.6% of our net revenue was derived from fixed-price contracts, as compared with 11.6% in 2009. Given the economic downturn, it is possible that we will enter into a greater number of fixed-price contracts in the future as customers shift more risk to their suppliers.

Under our time-and-material contracts, we are paid for labor at negotiated hourly billing rates or reimbursement at specified mark-up hourly rates and negotiated rates for other expenses. Profitability on these contracts is driven by billable headcount and cost control. Some time-and-material contracts are subject to contract ceiling amounts, which may be fixed or performance-based. If our costs generate billings that exceed the contract ceiling or are not allowable under the provisions of the contract or any applicable regulations, we may not be able to obtain reimbursement for all of our costs.

Revenue recognition for a contract requires judgment relative to assessing the contracts estimated risks, revenue and costs and technical issues. Due to the size and nature of many of our contracts, the estimation of overall risk, revenue and cost at completion is complicated and subject to many variables. Changes in underlying assumptions, circumstances or estimates have in the past and may continue to adversely affect future period financial performance.

We may incur significant costs in providing services in excess of original project scope without having an approved change order.
After commencement of a contract, we may perform, without the benefit of an approved change order from the customer, additional services requested by the customer that were not contemplated in our contract price due to customer changes or to incomplete or inaccurate engineering, project specifications, and other similar information provided to us by the customer. Our construction contracts generally require the customer to compensate us for additional work or expenses incurred under these circumstances.

A failure to obtain adequate written approvals prior to performing the work or appropriate reimbursements for the work performed could require us to record an adjustment to revenue and profit recognized in prior periods under the percentage-of-completion accounting method. Any such adjustments, if substantial, could have a material adverse effect on our results of operations and financial condition, particularly for the period in which such adjustments are made. There can be no assurance that we will be successful in obtaining, through negotiation, arbitration, litigation or otherwise, approved change orders in an amount sufficient to compensate us for our additional, unapproved work or expenses.

22

ITEM 1A. RISK FACTORS (continued)

The terms of our contracts could expose us to unforeseen costs and costs not within our control, which may not be recoverable and could adversely affect our results of operations and financial condition.
Under fixed-price contracts, we agree to perform the contract for a fixed price and, as a result, can improve our expected profit by superior contract performance, productivity, worker safety and other factors resulting in cost savings. However, we could incur cost overruns above the approved contract price, which may not be recoverable. Under certain incentive fixed-price contracts, we may agree to share with a customer a portion of any savings we are able to generate while the customer agrees to bear a portion of any increased costs we may incur up to a negotiated ceiling. To the extent costs exceed the negotiated ceiling price we may be required to absorb some or all of the cost overruns.

Fixed-price contract prices are established based largely upon estimates and assumptions relating to project scope and specifications, personnel and material needs. These estimates and assumptions may be inaccurate or conditions may change due to factors out of our control, resulting in cost overruns which we may be required to absorb. This has had and could continue to have a material adverse effect on our business, financial condition and results of operations. In addition, our profits from these contracts could decrease and we could experience losses if we incur difficulties in performing the contracts or are unable to secure fixed-pricing commitments from our manufacturers, suppliers and subcontractors at the time we enter into fixed-price contracts with our customers.

Under time-and-material contracts, we perform our services in return for payment of our agreed upon reimbursable costs plus a profit. The profit component is typically expressed in the contract either as a percentage of the reimbursable costs we actually incur or is factored into the rates we charge for labor or for the cost of equipment and materials, if any, we are required to provide. Some time-and-material contracts provide for the customer's review of the accounting and cost control systems used by us to calculate these labor rates and to verify the accuracy of the reimbursable costs invoiced. These reviews sometimes result in reductions in amounts previously billed to the customer and in an adjustment to amounts previously reported by us as our profit on the contract.

Many of our fixed-price or time-and-material contracts require us to satisfy specified progress milestones or performance standards in order to receive a payment. Under these types of arrangements, we may incur significant costs for labor, equipment and supplies prior to receipt of payment. If the customer fails or refuses to pay us for any reason, there is no assurance that we will be able to collect amounts due to us for costs previously incurred. In some cases, we may find it necessary to terminate work on the project. In addition, if the contract permits, we may attempt to recoup some or all of the cost overruns by entering into a claims recovery process by retaining a third party consultant to assist us with necessary due diligence. However, there can be no assurance that we would be able to recover some or all of the cost overruns through the claims recovery process or on terms favorable to the Company.

If we are not able to successfully manage internal growth initiatives, our business and results of operations may be adversely affected.
Our growth strategy is to use our technical expertise in conjunction with industry trends. To support this strategy, the Company may elect to fund internal growth initiatives targeted at markets that we believe may have significant potential needs for the Company's services. However, these initiatives have not always been, and in the future they may not be, successful. For instance, the Company may misread industry trends; during economic downturns, the needs of our targeted customers may decline significantly; it may take an extended period of time before a new initiative becomes profitable; or the Company may not be able to successfully execute on these initiatives. In these cases, the internal initiatives could have a negative impact on earnings.

Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an uncertain indicator of our future revenue or earnings, particularly in light of the current economy.
As of December 31, 2010, our backlog was approximately $244.2 million. 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 and the revenue and profits that we actually earn. These adjustments are exacerbated by current economic conditions.

ITEM 1A. RISK FACTORS (continued)

If the operating result of any component in one of our segments is adversely affected, an impairment of goodwill could result in a write down.
Based on factors and circumstances impacting ENGlobal and the business climate in which it operates, the Company may determine that it is necessary to re-evaluate the carrying value of its goodwill by conducting an impairment test. The Company has assigned goodwill to its segments based on estimates of the relative fair value of each of its business segments. If changes in the industry, market conditions or government regulation negatively impact any of the Company's segments resulting in lower operating income, if material assets are damaged, if anticipated synergies or cost savings are not realized with newly acquired entities or if any other circumstance occurs which results in the fair value of any segment declining below its carrying value, an impairment to goodwill would be created. The Company would be required to write down the carrying value of goodwill. For example, in 2007, the Company determined that goodwill within the Automation segment was impaired in the amount of $432,000.

Failure to maintain adequate internal controls could adversely affect us.
Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price. Our internal controls over financial reporting may not be adequate and our independent auditors may not be able to certify as to their adequacy.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. If we identify deficiencies in our internal control over financial reporting, our business and our stock price could be adversely affected. We have, in the past, identified material weaknesses in our internal controls, and while these have been cured, if we determine that we have further material weaknesses, it could affect our ability to ensure timely and reliable financial reports and the ability of our auditors to attest to the effectiveness of our internal controls. If our independent auditors are not able to certify the adequacy of our internal controls, it could have a significant adverse effect on our business and reputation.

If we are not able to successfully manage changes in the size of our business, our business and results of operations may be adversely affected.
Until recently, we have been known as a rapidly growing company. In the last three years, our revenues, employees and profits have decreased. Both increases and decreases in the size of our business present us with numerous managerial, administrative, operational and other challenges that could require us to continually adjust the size and scope of our management information systems, maintain discipline in our internal systems and controls, adjust the size of our employee pool and effectively manage our fixed overhead. The inability of our management to effectively manage changes in the size of our business could have a material adverse effect on our business.

Additional acquisitions may adversely affect our ability to manage our business.
Acquisitions have contributed to our growth in the past and we plan to continue making acquisitions on terms management considers favorable to us. The successful acquisition of other companies involves an assessment of future revenue opportunities, operating costs, economies and earnings after the acquisition is complete, and potential industry and business risks and liabilities beyond our control. This assessment is necessarily inexact and its accuracy is inherently uncertain. In connection with our assessments, we perform reviews of the acquisition target that we believe to be generally consistent with industry practices. These reviews, however, may not reveal all existing or potential problems, nor will they permit a buyer to become sufficiently familiar with the target companies to assess fully their deficiencies and capabilities. We cannot assure you that we will identify, finance and complete additional suitable acquisitions on acceptable terms or that acquisitions we consummate will be profitable. In addition, we may not be able to successfully integrate future acquisitions. Any acquisition may require substantial attention from our management, which may limit the amount of time that management can devote to day-to-day operations. Our inability to find additional attractive acquisition candidates or to effectively manage the integration of businesses we acquire could adversely affect our profitability.

ITEM 1A. RISK FACTORS (continued)

Our dependence on subcontractors and equipment manufacturers could adversely affect us.
We rely on third party subcontractors as well as third party suppliers and manufacturers to complete our projects. To the extent that we cannot engage subcontractors or acquire supplies or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount we are required to pay for these goods and services exceeds the amount we have estimated in bidding for fixed-price or time-and-material contracts, we could experience losses on these contracts. In addition, if a subcontractor or supplier is unable to deliver its services or materials according to the negotiated contract terms for any reason, including the deterioration of its financial condition or over-commitment of its resources, we may be required to purchase the services or materials from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the services or materials were needed.

Seasonality of our industry may cause our revenue to fluctuate.
Holidays and employee vacations during our fourth quarter of each calendar year exert downward pressure on revenue for that quarter, which is only partially offset by the year-end efforts on the part of many clients to spend any remaining funds budgeted for services and capital expenditures during the year. Additionally, the annual budgeting and approval process under which these clients operate is normally not completed until after the beginning of each year, which can depress results for the first quarter. Principally due to these factors, our first and fourth quarters may be less robust in terms of financial results, billable hours and utilization than our second and third quarters.

Force majeure events such as natural disasters could negatively impact the economy and the industries we service, which may negatively affect our financial condition, results of operations and cash flows.
Force majeure events, such as hurricanes, could negatively impact the economies of the areas in which we operate. For example, during 2008, Hurricanes Gustav and Ike caused considerable damage along the Gulf Coast not only to the refining and petrochemical industry, but also the commercial segment which competes for labor, materials and equipment resources needed throughout the entire United States. In some cases, we remain obligated to perform our services after a natural disaster even though our contracts may contain force majeure clauses. In those cases, if we are not able to react quickly and/or negotiate contractual relief on favorable terms to the Company, our operations may be significantly and adversely affected, which would have a negative impact on our financial condition, results of operations and cash flows.

Our Board of Directors may authorize future sales of ENGlobal common stock, which could result in a decrease in the market value to existing stockholders of the shares they hold.
Our Articles of Incorporation authorize our Board of Directors to issue up to an additional 48,323,721 shares of common stock and an additional 2,000,000 shares of blank check preferred stock as of the date of filing. These shares may be issued without stockholder approval unless the issuance is 20% or more of our outstanding common stock, in which case the NASDAQ requires stockholder approval. We may issue shares of stock in the future in connection with acquisitions or financings. In addition, we may issue restricted stock or options under our 2009 Equity Incentive Plan. Future issuances of substantial amounts of common stock, or the perception that these sales could occur, may affect the market price of our common stock. In addition, the ability of the Board of Directors to issue additional stock may discourage transactions involving actual or potential changes of control of the Company, including transactions that otherwise could involve payment of a premium over prevailing market prices to holders of our common stock.

Our strategy to expand internationally may fail, which may impede our growth and harm our operating results.
We are currently planning expansion into new international markets. The costs of entering the global market, as well as setting up the infrastructure to manage international affairs could be costly and consume valuable time of many of our key executives. Other key challenges we will face in pursuing our international strategy include the need to hire and train personnel capable of supporting customers and managing operations in foreign countries, secure commercial relationships to help establish our presence in international markets, localize our products to target the specific needs and preferences of foreign customers, which may differ from our traditional customer base in the United States,

implement new systems, procedures and controls to monitor our operations in new markets and obtain licenses or authorizations that may be required to perform our services internationally.

ITEM 1A. RISK FACTORS (continued)

In addition, we are subject to risks associated with operating in foreign countries including multiple, changing and often inconsistent enforcement of foreign ownership and other laws and regulations that could have a direct or indirect adverse impact on our business and market opportunities; political and economic instability; changes in local economic environments, including inflation, recession and foreign currency exchange rate fluctuations; competition with existing market participants which have a longer history in and greater familiarity with the foreign markets we enter; possible longer payment cycles for customers in some foreign countries; difficulty and expense associated with enforcement of agreements and collection of receivables through legal systems in some foreign countries; and difficulty and expense associated with managing a large organization spread throughout numerous foreign countries.

Many of these factors typically become more prevalent during periods of economic stress; therefore, current global economic differences may exacerbate these risks. In addition, compliance with foreign and U.S. laws and regulations that are applicable to our international operations will be complex and may increase our cost of doing business in international jurisdictions and our international operations could expose us to fines and penalties if we fail to comply with these regulations. These laws and regulations include U.S. laws such as the Foreign Corrupt Practices Act. Although we are in the process of implementing policies and procedures designed to ensure compliance with these laws, there can be no assurance that our employees, contractors and agents will not take actions in violation of our policies. Any such violations could subject us to civil or criminal penalties and could also materially damage our reputation, our brand, our international expansion efforts and our business and negatively impact our operating results. In addition, if we fail to address the challenges and risks associated with international expansion and acquisition strategy, we may encounter difficulties implementing our strategy, which could impede our growth or harm our operating results.

Business conducted in many international markets involves complex and evolving tax rules, which subjects us to international tax compliance risks.
Many of the foreign tax jurisdictions in which we intend to expand have complex and subjective rules regarding the valuation of inter-company services, cross-border payments between affiliated companies and the related effects on the taxes to which we are subject, including income tax, value-added tax and transfer tax. From time to time, our foreign subsidiaries will be subject to tax audits and may be required to pay additional taxes, interest or penalties should the taxing authority assert different interpretations, or different allocations or valuations, of our services. There is a risk, if one or more taxing authorities significantly disagree with our interpretations, allocations or valuations that any additional taxes, interest or penalties which may result could be material and could reduce our income and cash flow from our international operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Facilities

We lease space in 15 buildings in the U.S. totaling approximately 376,000 square feet. The leases have remaining terms ranging from monthly to eight years and are on terms that we consider commercially reasonable. ENGlobal has no major encumbrances related to these properties.

Our principal office locations are in Houston and Beaumont, Texas; and Tulsa, Oklahoma. We have other offices in Freeport, Texas; Baton Rouge and Lake Charles, Louisiana; Blackwell, Oklahoma; Denver, Colorado; Mobile, Alabama; and Chicago, Illinois. Approximately 265,000 square feet of our total office space is designated for our professional, technical and administrative personnel. We believe that our office and other facilities are well maintained and adequate for existing and planned operations at each operating location.

Our Automation segment performs fabrication assembly in its Houston, Texas shop facility with approximately 81,000 square feet of space.

ITEM 2. PROPERTIES (continued)

A satellite office in Massachusetts is partially owned by a related party of the Company. The monthly lease payment is $2,500.

ITEM 3. LEGAL PROCEEDINGS

From time to time, ENGlobal or one or more of its subsidiaries is involved in various legal proceedings or are 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. 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.

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. On October 26, 2010, the Bankruptcy Court issued an order setting forth the manner in which proceeds of a sale of the SLE property will be allocated among the debtors in the Bankruptcy proceeding. Under the terms of this Order, ENGlobal will not receive as much of the proceeds from a sale as it believes it is entitled to receive. ENGlobal is considering an appeal of the Order. However, given the time this matter has been pending, together with other factors, such as the time it would take to prosecute an appeal, ENGlobal elected to write down the note receivable to $1.4 million in 2010.

On April 23, 2010, ENGlobal filed an action in the United States District Court for the Southern District of Texas, Case Number 4:10-cv-10352 entitled ENGlobal Engineering, Inc. and ENGlobal Construction Resources, Inc. vs. Kennett F. Stewart, John Paul, and William A. Hurst. The lawsuit seeks to enforce collection of $18.75 million owed to ENGlobal and its affiliates for services performed on the South Louisiana ethanol plant, alleges fraud by the owners of SLE and seeks to recover damages from them in their individual capacities.

In November 2009, the Company filed a petition entitled ENGlobal Engineering, Inc. vs. Alon USA, L.P., Alon USA GP, LLC and Alon USA Refining, Inc. in the 162nd District Court of Dallas County, Case Number 09-15915-I. The lawsuit seeks to enforce the collection of the $3.0 million owed to ENGlobal for services performed for a refinery rebuild project that is remaining as amounts due on a letter payment agreement between ENGlobal and Alon USA, LP ("Alon") and to foreclose on its lien. Alon counterclaimed, seeking damages of $17.4 million. A formal settlement agreement was signed on March 3, 2011. The Company had previously established an allowance to cover the insurance deductible and a write off was posted in the fourth quarter of 2010 in response to the settlement agreement. The remaining $2.6 million has been re-classed to a current receivable as of December 31, 2010. Upon the signing of the settlement agreement, the petition was dismissed.

ENGlobal was named as a defendant in a lawsuit entitled Ecoproduct Solutions, L.P. vs. ENGlobal Engineering and Swenson Technology, Inc. The lawsuit was filed on October 8, 2009 in the 270th Judicial District Court of Harris County, Texas, Case Number 2009-64881, and was based on a contract for engineering services performed between November 2004 and August 2005 and for which ENGlobal received approximately $700,000. Ecoproduct claimed that it incurred actual damages of $45 million and sought to recover actual, consequential and punitive damages. On January 28, 2010, the court granted ENGlobal's Motion for Summary Judgment. Ecoproduct has appealed and, barring a reversal of the summary judgment, ENGlobal appears to face little to no further exposure in this matter.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

The Company's common stock has been quoted on the NASDAQ Global Stock Market (NASDAQ) since December 18, 2007, and is traded under the symbol “ENG.” From June 16, 1998 to December 18, 2007, the Company's stock was traded on the American Stock Exchange. Newspaper and on-line stock listings identify us as “ENGlobal.”

The following table sets forth the high and low sales prices of our common stock for the periods indicated.

| | Fiscal Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | High | Low | High | Low |
| First quarter | $3.48 | $2.77 | $4.95 | $2.44 |
| Second quarter | 3.64 | 2.06 | 6.34 | 4.42 |
| Third quarter | 2.60 | 2.10 | 5.15 | 3.97 |
| Fourth quarter | 3.79 | 2.41 | 4.13 | 2.78 |

The foregoing figures, based on information published by NASDAQ, do not reflect retail mark-ups or markdowns and may not represent actual trades.

As of December 31, 2010, approximately 235 stockholders of record held the Company's common stock. We do not have information regarding the number of holders of beneficial interests our common stock.

The Company is authorized to issue 2,000,000 shares of Preferred Stock, par value $0.001 per share (the “Preferred Stock”). The Board of Directors has the authority to approve the issuance of all or any of these shares of Preferred Stock in one or more series, to determine the number of shares constituting any series and to determine any voting powers, conversion rights, dividend rights and other designations, preferences, limitations, restrictions and rights relating to such shares without any further action by the stockholders. While there are no current plans to issue the Preferred Stock, it was authorized in order to provide the Company with flexibility, such as businesses becoming available for acquisition.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (continued)

Performance Table

The following table compares the five-year cumulative total stockholder return of ENGlobal Corporation as compared to the NASDAQ Market Index and a self-instructed peer group index, consisting of the following companies: Furmanite Corporation (formerly Xanser Corporation), Michael Baker Corporation, Matrix Service Company, Tetra Tech, Inc., Willbros Group and VSE Corporation. The table assumes an investment of $100.00 in our common stock and each index (including reinvestment of dividends) on December 31, 2005 and shown through December 31, 2010.

THE STOCK PRICE PERFORMANCE SHOWN IN THE TABLE BELOW REPRESENTS HISTORICAL PRICE PERFORMANCE AND IS NOT NECESSARILY INDICATIVE OF ANY FUTURE STOCK PRICE PERFORMANCE.

COMPARISION OF 5-YEAR CUMULATIVE TOTAL RETURN AMOUNT ENGLOBAL
NASDAQ MARKET INDEX (U.S.) AND PEER GROUP INDEX

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| ENGLOBAL CORP. | 100.00 | 76.55 | 135.24 | 38.69 | 37.26 | 44.29 |
| NASDAQ MARKET INDEX (U.S.) | 100.00 | 111.16 | 124.64 | 73.80 | 107.07 | 125.99 |
| PEER GROUP INDEX | 100.00 | 121.29 | 190.09 | 122.69 | 150.09 | 131.84 |

ASSUMES $100 INVESTED ON DECEMBER 31, 2005
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDED DECEMBER 31, 2010

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933, as amended, or the Exchange Act, which might incorporate future filings made by the Company under those statutes, the Company's Stock Performance Table will not be incorporated by reference into any of those prior filings, nor will such report or table be incorporated by reference into any future filings made by the Company under those Acts.

Equity Compensation Plan Information

The following table sets forth certain information concerning the Company's equity compensation plans as of December 31, 2010. See Note 13 in the attached financial statements.

| | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans {Excluding Securities in Column (a)} (c) |
|---|---|---|---|---|
| Equity compensation plan approved by security holders | 915,000 | (1) | $7.14 | 0 |
| Equity incentive plan approved by security holders | 122,507 | (2) | $2.60 | 237,520 |

(1) Includes options issued through our 1998 Incentive Plan. For a brief description of the material features of the Plan, see Note 13 of the Notes to the Consolidated Financial Statements.

(2) Includes unvested restricted stock awards issued through our 2009 Incentive Plan. For a brief description of the material features of the Plan, see Note 13 of the Notes to the Consolidated Financial Statements.

The Company's 1998 Incentive Plan expired in June 2008. At the June 18, 2009 Annual Meeting of Stockholders, the Company's stockholders voted to approve the adoption of the ENGlobal Corporation 2009 Equity Incentive Plan authorizing the issuance of up to 480,000 shares, the equivalent number of shares that remained under the expired ENGlobal Corporation 1998 Incentive Plan.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (continued)

Dividend Policy

The Company has never declared or paid a cash dividend on its common stock. The Company intends to retain any future earnings for reinvestment in its business and does not intend to pay cash dividends in the foreseeable future. In addition, restrictions contained in our loan agreements governing our credit facility with Wells Fargo Bank limit the amount of dividends that can be paid on our common stock. The payment of dividends in the future will depend on numerous factors, including the Company's earnings, capital requirements and operating and financial position as well as general business conditions.

Stock Repurchase Policy

Effective May 14, 2010, our Board of Directors authorized a total expenditure of $2.5 million to repurchase shares of the Company's common stock. Through open market purchases under this authorization, we purchased 981,099 shares at an average cost of $2.41 per share during the twelve months ended December 31, 2010. At December 31, 2010, approximately $0.1 million remains authorized in the stock repurchase program. The program does not have an expiration date. Restrictions, contained in our loan agreements governing our credit facility with Wells Fargo Bank, limit the amount of our common stock that we can repurchase and in accordance with amendments to the loan agreement with Wells Fargo, the Company does not currently intend to purchase additional shares under this program.

ITEM 6. SELECTED FINANCIAL DATA

Summary Selected Historical Consolidated Financial Data

The following tables set forth our selected financial data. The data for the years ended December 31, 2010, 2009 and 2008 have been derived from the audited financial statements appearing elsewhere in this document. The data as of December 31, 2007 and 2006 have been derived from audited financial statements not appearing in this document. You should read the selected financial data set forth below in conjunction with our financial statements and the notes thereto included in Part II, Item 8; Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations;" and other financial information appearing elsewhere in this document.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (in thousands, except per share amounts) | | | | |
| Statement of Operations | | | | | |
| Revenue | | | | | |
| Engineering and Construction | $161,101 | $153,675 | $265,331 | $233,772 | $222,082 |
| Automation | 64,033 | 72,322 | 59,730 | 37,766 | 34,888 |
| Field Solutions | 95,481 | 117,465 | 168,271 | 91,689 | 46,120 |
| Total revenue | $320,615 | $343,462 | $493,332 | $363,227 | $303,090 |
| | | | | | |
| Costs and expenses | | | | | |
| Engineering and Construction | 148,848 | 142,272 | 224,391 | 188,907 | 205,315 |
| Automation | 60,720 | 63,619 | 52,245 | 34,382 | 30,400 |
| Field Solutions | 88,328 | 106,518 | 152,889 | 82,321 | 41,111 |
| Selling, general and administrative | 39,975 | 28,027 | 32,208 | 34,291 | 29,884 |
| Total costs and expenses | $337,871 | $340,436 | $461,733 | $339,901 | $306,710 |
| Operating income (loss) | $(17,256) | $3,026 | $31,599 | $23,326 | $(3,620) |
| Interest income (expense), net | (442) | (573) | (1,636) | (2,514) | (1,312) |
| Other income (expense), net | (319) | 173 | 64 | (138) | 652 |
| Foreign currency gain (loss) | — | 1 | (4) | (1) | (19) |
| Income (loss) from continuing operations before provision for income taxes | $(18,017) | $2,627 | $30,023 | $20,673 | $(4,299) |
| Provision for income taxes | (6,265) | 1,394 | 11,765 | 8,209 | (813) |
| Net income (loss) | $(11,752) | $1,233 | $18,258 | $12,464 | $(3,486) |

31

ITEM 6. SELECTED FINANCIAL DATA (continued)

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (in thousands, except per share amounts) | | | | |
| Per Share Data | | | | | |
| Basic earnings (loss) per share | | | | | |
| Continuing operations | $(0.43) | $0.05 | $0.67 | $0.46 | $(0.13) |
| Discontinued operations | — | — | — | — | — |
| Net income (loss) per share | $(0.43) | $0.05 | $0.67 | $0.46 | $(0.13) |
| Weighted average common shares outstanding - basic (000's) | 27,151 | 27,330 | 27,180 | 26,916 | 26,538 |
| Diluted earnings (loss) per share | | | | | |
| Continuing operations | $(0.43) | $0.04 | $0.66 | $0.45 | $(0.13) |
| Discontinued operations | — | — | — | — | — |
| Net income (loss) per share | $(0.43) | $0.04 | $0.66 | $0.45 | $(0.13) |
| Weighted average common shares outstanding - diluted (000's) | 27,151 | 27,567 | 27,672 | 27,435 | 26,538 |
| Cash Flow Data | | | | | |
| Operating activities, net | $(6,151) | $23,002 | $8,346 | $(1,980) | $(8,953) |
| Investing activities, net | (3,026) | (4,205) | (2,871) | (1,614) | (9,330) |
| Financing activities, net | 9,079 | (19,673) | (5,273) | 3,074 | 19,553 |
| Exchange rate changes | 4 | 19 | (110) | 25 | (26) |
| Net change in cash and cash equivalents | $(94) | $(857) | $92 | $(495) | $1,244 |
| Balance Sheet Data | | | | | |
| Working capital | $30,112 | $36,308 | $58,586 | $42,915 | $35,187 |
| Property and equipment, net | $4,503 | $5,983 | $5,744 | $6,472 | $8,725 |
| Total assets | $110,324 | $110,635 | $152,705 | $119,590 | $106,227 |
| Long-term debt, net of current portion | $252 | $6,098 | $23,614 | $29,318 | $27,162 |
| Long-term capital leases, net of current portion | $— | $51 | $243 | $— | $— |
| Stockholders' equity | $65,102 | $78,711 | $76,766 | $55,797 | $40,862 |

Material Events and Uncertainties

The Company is currently seeking to recover $12.3 million due from South Louisiana Ethanol (“SLE”) relating to work performed in 2007. Based on the October 26, 2010 Bankruptcy Court order, we have written off $10.9 million of the note receivable, leaving $1.4 million which the Company believes is collectible. However, collectability is not assured and failure to collect the amount due could have a negative impact on future earnings which is estimated (based on the current year's tax rate) to be approximately $0.03 per share of unrecovered exposure. More information relating to the SLE matter is included under Part I, Item 3, “Legal Proceedings.”

Current Efforts to Mitigate Losses

The Company will continue to monitor all of the above mentioned proceedings and vigorously defend our position in all legal matters. We will pursue all available remedies to recover its claims.

32

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is qualified in its entirety by, and should be read in conjunction with, our Consolidated Financial Statements including the Notes thereto, included elsewhere in this Annual Report on Form 10-K. Note 18 to the Financial Statements contain segment information.

Overview

Results of Operations

ENGlobal is currently facing a number of challenges. Due to the current economic conditions and to the reluctance on the part of our customers to undertake new projects domestically, fewer projects are available and customers are seeking to renegotiate rates on existing contracts. While we are seeing an increase in proposal activity, available projects are relatively small and pricing is extremely competitive. In response to these conditions, we are increasing our marketing efforts in part by expanding our marketing staff. However, even with heightened marketing activity, these factors adversely impact our profitability, backlog and liquidity. We are in the process of renegotiating our Credit Facility with Wells Fargo Bank but there is no assurance that we will be able to do so.

In addition, collection of receivables has become more challenging as the economic sector we serve has continued to see only modest improvement. Management believes that past lay-offs and the reduction in employee benefits for remaining employees, necessitated by the adverse impact of industry conditions on the Company's operations, have negatively affected employee morale and retention. In the face of these issues, we are evaluating the possible reinstatement of certain employee benefits. In addition, management has been focusing on the need to maintain an internal culture and external reputation for providing high quality, responsive and cost-effective work. Under the leadership of our new CEO, we are in the process of evaluating and making changes in our internal management operations to address these issues. While management changes such as those in process can be disruptive in the short term, we believe the long-term impact of the changes will be favorable. We are also expanding into international operations which we believe will improve our results.

During the first two quarters of 2010, the Company managed and reported through four business segments: Engineering, Construction, Automation and Land. In May 2010, the Company hired a new CEO. The CEO, as the Chief Operating Decision Maker, has assessed the Company's business organization and management structure resulting in management changes, a new focus on specific types of work and reorganization of integrated functions within the Company. In response to these changes, we reevaluated our reportable segments. As a result, we elected to realign our reporting into three business segments: Engineering, Automation and Land. Our services that were offered under the previous Construction segment were merged into our current reporting segments. During the fourth quarter of 2010, we renamed our operating segments to Engineering and Construction, Automation and Field Solutions.

The total amounts reported for prior periods will remain the same, but amounts reported on a segment basis are reported in the three segments that the Company now operates in, rather than the four segments in which the Company previously operated and reported.

The Engineering and Construction 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. Services provided by the Engineering and Construction segment include feasibility studies, engineering, design, procurement and construction management. 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. The Field Solutions segment provides inspection, land management, right-of-way, environmental compliance, legislative affairs support and governmental regulatory compliance services primarily to the midstream sector, including pipeline, utility and telecom companies and other owner/operators of infrastructure facilities throughout the United States.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The Company's revenue is composed of engineering, procurement and construction service revenue and engineered systems sales. The Company recognizes service revenue as soon as the services are performed. The majority of the Company's engineering services have historically been provided through time-and-material contracts whereas a majority of the Company's engineered system sales are earned on fixed-price contracts.

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

Operating SG&A expense includes management 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.

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The following tables set forth, for the periods indicated, certain financial data derived from our consolidated statements of operations.

Consolidated Results of Operations for the Twelve Months Ended December 31, 2010 and 2009

| For the twelve months ended December 31, 2010 (dollars in thousands) | Engineering and Construction | Automation | Field Solutions | All Other | Consolidated | |
|---|---|---|---|---|---|---|
| Revenue before eliminations | $161,149 | $65,396 | $95,481 | $— | $322,026 | |
| Inter-segment eliminations | (48) | (1,363) | — | — | (1,411) | |
| Revenue | 161,101 | 64,033 | 95,481 | — | 320,615 | 100.0 % |
| Gross profit | 12,253 | 3,313 | 7,153 | — | 22,719 | 7.1 % |
| SG&A | 17,925 | 4,476 | 3,480 | 14,094 | 39,975 | 12.5 % |
| Operating income (loss) | (5,672) | (1,163) | 3,673 | (14,094) | (17,256) | (5.4)% |
| Other income (expense) | | | | | (319) | (0.1)% |
| Interest income (expense) | | | | | (442) | (0.1)% |
| Tax provision | | | | | 6,265 | 2.0 % |
| Net loss | | | | | $(11,752) | (3.6)% |
| Diluted earnings per share | | | | | $(0.43) | |

| For the twelve months ended December 31, 2009 (dollars in thousands) | Engineering and Construction | Automation | Field Solutions | All Other | Consolidated | |
|---|---|---|---|---|---|---|
| Revenue before eliminations | $154,807 | $72,418 | $118,330 | $— | $345,555 | |
| Inter-segment eliminations | (1,132) | (96) | (865) | — | (2,093) | |
| Revenue | 153,675 | 72,322 | 117,465 | — | 343,462 | 100.0 % |
| Gross profit | 11,403 | 8,703 | 10,947 | — | 31,053 | 9.1 % |
| SG&A | 6,806 | 4,135 | 3,472 | 13,614 | 28,027 | 8.2 % |
| Operating income (loss) | 4,597 | 4,568 | 7,475 | (13,614) | 3,026 | 0.9 % |
| Other income (expense) | | | | | 174 | 0.1 % |
| Interest income (expense) | | | | | (573) | (0.2)% |
| Tax provision | | | | | (1,394) | (0.4)% |
| Net income | | | | | $1,233 | 0.4 % |
| Diluted earnings per share | | | | | $0.04 | |

| Increase/(Decrease) in 2010 to 2009 Operating Results (dollars in thousands) | Engineering and Construction | Automation | Field Solutions | All Other | Consolidated | |
|---|---|---|---|---|---|---|
| Revenue before eliminations | $6,342 | $(7,022) | $(22,849) | $— | $(23,529) | |
| Inter-segment eliminations | 1,084 | (1,267) | 865 | — | 682 | |
| Revenue | 7,426 | (8,289) | (21,984) | — | (22,847) | (6.7)% |
| Gross profit | 850 | (5,390) | (3,794) | — | (8,334) | (26.8)% |
| SG&A | 11,119 | 341 | 8 | 480 | 11,948 | 42.6 % |
| Operating income (loss) | (10,269) | (5,731) | (3,802) | (480) | (20,282) | (670.3)% |
| Other income (expense) | | | | | (493) | (283.3)% |

| | | |
|---|---|---|
| Interest income (expense) | 131 | (22.9 )% |
| Tax provision | 7,659 | (549.4 )% |
| Net income | $(12,985 ) | (1,053.1)% |
| Diluted earnings per share | $(0.47 ) | |

35

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Consolidated Results of Operations for the Twelve Months Ended December 31, 2009 and 2008

| For the twelve months ended December 31, 2009 (dollars in thousands) | Engineering and Construction | Automation | Field Solutions | All Other | Consolidated | | |
|---|---|---|---|---|---|---|---|
| Revenue before eliminations | $154,807 | $72,418 | $118,330 | $— | $345,555 | | |
| Inter-segment eliminations | (1,132) | (96) | (865) | — | (2,093) | | |
| Revenue | 153,675 | 72,322 | 117,465 | — | 343,462 | 100.0 | % |
| Gross profit | 11,403 | 8,703 | 10,947 | — | 31,053 | 9.1 | % |
| SG&A | 6,806 | 4,135 | 3,472 | 13,614 | 28,027 | 8.2 | % |
| Operating income (loss) | 4,597 | 4,568 | 7,475 | (13,614) | 3,026 | | |