

ENGLOBAL CORP
Form 10-K
April 12, 2012
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, 2011

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 88-0322261
(State or other jurisdiction of (I.R.S Employer Identification No.)
incorporation or organization)

654 North Sam Houston Parkway East, Suite 400 77060-5914
(Address of principal executive offices) (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

Edgar Filing: ENGLOBAL CORP - Form 10-K

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

Edgar Filing: ENGLOBAL CORP - Form 10-K

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	Smaller reporting company	X

(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, 2011 was \$56,595,512.98 (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, 2012 is as follows:

\$0.001 Par Value Common Stock	26,822,518 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.

ENGlobal Corporation
2011 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

PART I

	PAGE
ITEM 1. <u>BUSINESS</u>	4
ITEM 1A. <u>RISK FACTORS</u>	18
ITEM 2. <u>PROPERTIES</u>	22
ITEM 3. <u>LEGAL PROCEEDINGS</u>	22

PART II

ITEM 5. <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	24
ITEM 6. <u>SELECTED FINANCIAL DATA</u>	27
ITEM 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	28
ITEM 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	51
ITEM 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	54
ITEM 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	86
ITEM 9A. <u>CONTROLS AND PROCEDURES</u>	86

PART III

ITEM 10. <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	88
ITEM 11. <u>EXECUTIVE COMPENSATION</u>	88
ITEM 12. <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	88
ITEM 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u>	88
ITEM 14. <u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	88

PART IV

ITEM 15. <u>EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES</u>	89
--	----

SIGNATURES

<u>SIGNATURES</u>	95
-------------------	----

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 State 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 \$312.7 million in 2011, a compounded annual growth rate of approximately 15.0%, 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 1,943 full-time equivalent employees in 11 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 throughout the United States. Services provided by the Engineering and Construction segment include feasibility studies, engineering, design, procurement and construction management. The Engineering and Construction segment includes the government services group, which provides engineering, design, installation and operation and maintenance of various government, public sector and international facilities.

The Automation Segment

The Automation segment provides services related to the design, fabrication and implementation of process distributed control and analyzer systems, advanced automation, information technology, electrical and heat tracing projects primarily to the upstream and downstream sectors throughout the United States as well as specific projects in the Middle East and Central Asia.

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 telecommunications 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.

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.

ITEM 1. BUSINESS (continued)

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 that contributes 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.

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 in excess of any cost for employees and benefits, material, equipment and subcontracts, plus our selling, general and administrative (SG&A) expenses.

The Engineering and Construction segment derives revenue primarily from time-and-material fees charged for professional and technical services, but its net income is derived primarily from services it provides to the oil and gas industry, utilities and alternative energy developers. The segment also enters 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.

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, 2010, and 2011. This reduction was most evident in the domestic refining and petrochemical industries, so that much of our work in this area consisted of maintenance, small capital retrofit and safety, regulatory and compliance driven work. Competition also increased greatly for the limited amount of project work on the market. As a result of stabilization of the economy in 2011, we experienced a stabilization of our revenues with projects consisting mainly of maintenance work.

In August 2009, the Company acquired the operations of PCI Management and Consulting Company (“PCI”), a private Illinois based power consulting business. PCI provided 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.

further into the upstream market.

8

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.

Competition

9

Company believes organic growth will occur with the improvement in the global economy, our improved employee base, and the ability to take advantage of cross-selling under the One Englobal culture. We also plan to make strategic acquisitions with companies that have positive synergies and that will either expand the types of services we perform or expand our geographic reach.

Our past acquisition program has provided the benefit of expanding our existing customer base and range of services. 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 as customers are able to realize efficiencies as well as leverage results from using a single supplier for multiple products and services.

new engineering and construction management projects. The in-plant division within the Engineering and Construction segment generates the majority of its revenue through in-plant staffing and construction related staffing at field locations. We consider all of these longer-term in nature and not typically limited to one project.

Automation Segment:

12

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.

factor that could materially impact our operating results.

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 2011, our top three clients, BASF Corporation, ExxonMobil and Chevron, accounted for approximately 7%, 7% and 6% of our revenue respectively. As our backlog

18

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 effect on both our ability to collect receivables and our results of operations.

19

Our business and operating results could be adversely affected by our inability to accurately estimate the overall risks, revenue or costs on a contract.

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

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;

employee headcount, closing offices, as appropriate, discontinuing underperforming divisions, and creating an enhanced

28

shown on the Consolidated Statements of Operations as a loss from discontinued operations, net of taxes. Pending the sale or termination of the Electrical Services Group, we continue to abide by our contractual details to complete the projects to the client's satisfaction.

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

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, 2011 and 2010

31

Tax provision	(5,722	)	(87.3)%
Net loss from continuing operations	\$7,984		(65.3)%
Diluted earnings per share from continuing operations	\$0.29			

Consolidated Results of Operations for the Twelve Months

Interest income (expense)	131	(22.9)%
Tax provision	7,947	(570.1)%
Net loss from continuing operations	\$(13,459	)(1,091.6)%
Diluted earnings per share from continuing operations	\$(0.49)

The decrease in all other SG&A expense for the twelve months ended December 31, 2011, as compared to the comparable 2010 period, was primarily the result of decreases of \$1.1 million in salaries and employee related expenses, offset by an increase of \$0.1 million in professional services expenses. As a percentage of revenue, all other SG&A expense decreased to 4.5% for the twelve months ended December 31, 2011, from 4.6% for the comparable prior year period.

net of allowance adjustments, \$0.8 million in professional services expenses and \$0.5 million in salaries and employee related expenses, offset by decreases of \$0.2 million in facilities expenses and \$0.1 million in stock compensation expenses.

Operating Income

37

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

Revenue

The Automation segment contributed 19.9% of our total revenues for 2011. Revenue from operations increased due to a number of projects undertaken to solve unique customer needs. In addition, the Caspian project, an \$85 million contract with the Caspian Pipeline Consortium in Russia and Kazakhstan, entered the fabrication and drawing stages. The Automation segment's estimated backlog at December 31, 2011 was \$101.7 million.

The overall increase in our fabrication revenue from 2010 to 2011 is due to the Power Island installations, the start of the Caspian project and renewed interest in Remote Instrument Enclosures (RIE) and Continuous Emission Monitoring (CEM) buildings. The overall decrease in our fabrication revenue from 2009 to 2010 was mainly attributable to the completion of large international analytical projects in 2009.

The overall increase in our non-fabrication revenue from 2010 to 2011 is mainly attributable to the Caspian project entering the drawing stage. The overall decrease in our non-fabrication revenue from 2009 to 2010 was mainly attributable to the completion of larger projects without the same level of new work to replace them due to clients' decreased spending on capital projects.

Gross Profit

Of the overall increase in our Automation segment's gross profit from 2010 to 2011, \$2.5 million is attributable to increased revenue while decreased costs contributed \$1.0 million to the overall increase. The overall gross profit percentage increase is due to the Automation segment becoming more efficient and innovative in providing customer solutions.

Of the total gross profit percentage decrease from 2009 to 2010, 2.3 percentage points were attributable to reduced margins due to competitive pressure and increased overhead costs related to expanding our services during the year. This included the up-front costs associated with offering new services. As we had anticipated, margins improved in 2011 as the initial up-front costs had been expended in 2010 and did not offset 2011 sales. The remainder of the decrease in gross profit is due to higher direct costs, as a percentage of lower revenue.

Selling, General and Administrative ("SG&A") Expenses

The overall decrease in our Automation segment's SG&A expense from 2010 to 2011 was attributable to the decreased amortization from a prior acquisition, a reduction of \$82,000 in bad debt expense and the reduction of facility space, reducing costs by \$300,000.

The overall increase in our Automation segment's SG&A expense from 2009 to 2010 was attributable to increases of \$286,000 in depreciation and amortization expenses, \$102,000 in facilities expenses, \$60,000 in bad debt expense, \$41,000 in insurance costs, \$36,000 in net losses on assets, \$36,000 in professional services expenses and \$27,000 in office expenses, offset by a decrease of \$261,000 in salaries and employee related expenses.

Operating Income

The overall increase in our Automation segment's operating income from 2010 to 2011 is due to revenue generated from the expansion of client solutions, contained project costs and a focused effort on reduction of SG&A costs. The overall decrease in our Automation segment's operating income from 2009 to 2010 was due to increased overhead costs associated with expanding our services offered to our customers along with reduced revenues and increased costs due to competitive pressure.

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

Revenue

The Field Solutions segment contributed 24.0% of our total revenues for 2011. The Field Solutions segment's estimated backlog at December 31, 2011 was \$76.3 million.

The overall decrease in revenue from inspection related services from 2010 to 2011 is primarily attributable to completion of several larger projects and our inability to replace them with new similarly-sized projects. The overall decrease in revenue in inspection related services from 2009 to 2010 was primarily attributable to the completion of ongoing projects as well as our clients' delay or cancellation of projects.

The overall increase in revenue from land related services from 2010 to 2011 was primarily attributable to expanded opportunities in the natural gas market. The overall decrease in revenue from land related services from 2009 to 2010 was primarily attributable to clients delaying capital projects and competitive pricing pressures as well as the completion or downsizing of several projects.

Gross Profit

The overall decrease in our Field Solutions segment's gross profit from 2010 to 2011 is primarily due to the segment's overall decrease in revenue. However, gross profit as a percentage of revenue increased from 7.5% to 7.8% because a smaller portion of the revenues were derived from inspection services which typically has lower margins. Also, margins from inspection services were negatively impacted by payroll changes made in the fourth quarter.

Of the overall decrease in our Field Solutions segment's gross profit from 2009 to 2010, \$1.7 million is attributable to increased costs, while decreased revenues contributed to \$2.1 million of the decrease. Of the total gross profit percentage decrease, 0.9 percentage points was attributable to lower margins resulting from competitive pressures, while the remaining 0.9 percentage points decrease is attributable to increased non-billable and indirect costs resulting from low employee utilization.

Selling, General and Administrative ("SG&A") Expenses

The increase in our Field Solutions segment's SG&A expense for 2011, as compared to the comparable 2010 period, was primarily attributable to increased professional service fees related to legal matters within the Inspection Division.

The slight increase in our Field Solutions segment's SG&A expense for 2010, as compared to the comparable 2009 period, was attributable to increases of \$226,000 in salaries and employee related expenses, \$95,000 in professional services expenses, \$80,000 in facilities expenses and \$18,000 in office expenses, offset by decreases of \$300,000 in bad debt expense, \$88,000 in depreciation and amortization expenses and \$24,000 in marketing expenses.

Operating Income

The overall \$3.5 million decrease in our Field Solutions segment's operating income for 2011, as compared to 2010, was due to lower overall revenues and higher legal fees.

The overall \$3.8 million decrease in our Field Solutions segment's operating income for 2010, as compared to 2009, was due to the completion of existing projects as well as delayed work along with increased costs due to competitive pressures.

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

Liquidity and Capital Resources

Overview

The Company defines liquidity as its ability to pay liabilities as they become due, fund business operations and meet monetary contractual obligations. Our primary source of liquidity at December 31, 2011 was borrowings under our senior revolving credit facility with Wells Fargo Bank (the "Wells Fargo Credit Facility"), discussed under "Senior Revolving Credit Facility" below. Cash on hand at December 31, 2011 totaled \$26 thousand and availability under the Wells Fargo Credit Facility totaled \$9.7 million, after consideration of loan covenant restrictions, resulting in total liquidity of \$9.7 million. We believe that we have sufficient available cash required for operations for the next 12 months. However, cash and the availability of cash could be materially restricted if:

- we are unable to extend the senior revolving credit facility past its current end date of May 31, 2012 or obtain alternative sources of financing,
- amounts billed are not collected or are not collected in a timely manner,
- circumstances prevent the timely internal processing of invoices,
- project mix continues to shift from cost-reimbursable to fixed-price contracts and we are unable to accurately estimate the project costs, resulting in cost overruns,
- the Company loses one or more of its major customers or its major customers significantly reduce the amount of work requested from the Company, or
- acquisitions are not integrated timely or effectively

If any such event occurs, we would be forced to consider alternative financing options.

Cash Flows from Operating Activities

Operating activities provided \$5.6 million in net cash in 2011, used \$6.2 million of net cash in 2010, and provided \$23.0 million in net cash in 2009. For the year ended December 31, 2011, the changes in working capital were primarily due to increased trade receivables of \$0.3 million, decreased notes receivable of \$2.5 million attributable to a payment received on the Alon USA receivable, decreased income taxes receivable of \$6.7 million primarily due to a tax refund received in October 2011, decreased accounts payable of \$0.6 million and decreased accrued compensation and benefits of \$0.1 million. The increase in trade receivables was primarily the result of increased operating activity. Our days sales outstanding has increased from 56 days for the 12-month period ended December 31, 2010 to 70 days for the 12-month period ended December 31, 2011. The Company manages its billing and client collection processes toward reducing days sales outstanding to the extent practicable. We believe that our allowance for bad debt is adequate to cover any potential non-payment by our customers.

Cash Flows from Investing Activities

Investing activities used cash totaling \$2.9 million in 2011, compared to \$3.0 million in 2010 and \$4.2 million in 2009. In 2011, investing activities were primarily used for capital additions. In 2010, investing activities were primarily used for capital additions and the CDI transaction. In 2009, investing activities were primarily used for capital additions and the PCI transaction.

Future investing activities are anticipated to remain consistent with prior years and include capital additions for leasehold improvements, technical applications software and equipment, such as upgrades to computers, as well as acquisitions. The Wells Fargo Credit Facility discussed under "Senior Revolving Credit Facility" below limits annual capital expenditures to \$3.5 million and acquisitions require prior approval by Wells Fargo.

Cash Flows from Financing Activities

Financing activities used cash totaling \$2.7 million in 2011, provided cash totaling \$9.1 million in 2010, and used cash totaling \$19.7 million in 2009. During 2011, our primary financing mechanism was our line of credit under the Wells Fargo Credit Facility. The line of credit was used principally to finance working capital requirements. During 2011,

43

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

our borrowings on the line of credit were \$159.9 million in the aggregate and we repaid an aggregate of \$162.2 million. During 2010, our borrowings on the line of credit were \$121.4 million in the aggregate and we repaid an aggregate of \$108.7 million on our short-term and long-term bank and other debt.

We anticipate that future cash flows from financing activities will be borrowings, payments on the line of credit and payments on long-term debt instruments. Line of credit fluctuations are a function of timing related to operations, obligations and payments received on accounts receivable. We estimate that payments on long-term debt, including interest for the coming year, will be \$16.6 million, however, if we are unable to replace the Credit Facility or if we replace it at unfavorable terms, it could have a negative impact on the cash flows and the operations of the Company.

Senior Revolving Credit Facility

Historically, we have satisfied our cash requirements through operations and borrowings under a revolving credit facility. In December 2009, the Company entered into a new credit agreement with Wells Fargo Bank, which provided a 28-month, \$25 million senior secured revolving credit facility ("Wells Fargo Credit Facility"). The Wells Fargo Credit Facility expires on May 31, 2012 and the Company is in the process of obtaining replacement financing. The Wells Fargo Credit Facility is guaranteed by substantially all of the Company's subsidiaries, is secured by substantially all of the Company's assets and positions Wells Fargo as senior to all other debt. On September 30, 2010, the Company entered into an amendment to the credit agreement with Wells Fargo Bank which converted our borrowings from a revolving credit facility to an asset based lending agreement. On August 1, 2011, the Company entered into an Amended and Restated Credit Agreement with Wells Fargo Bank which allows a maximum available principal amount of \$35 million under the Credit Facility. The Amended and Restated Credit Facility allows for borrowings limited to an aggregate of 80% of our current eligible accounts receivable. The Wells Fargo Credit Facility is additionally limited by deductions from accounts receivable for items such as invoices past due over 90 days, fixed price work, foreign receivables and government work. These accounts receivable exclusions under the Credit Facility totaled \$8.9 million at December 31, 2011. The Amended and Restated Credit Facility contains an unused commitment fee of fifty basis points (0.50%) per annum and allows for other indebtedness of up to \$10 million to cover the Ex-Im bank credit facility, described in the "Letters of Credit" section, and up to \$1.0 million in any 12 month period for the unsecured financing of insurance premiums. The outstanding balance on the Wells Fargo Credit Facility as of December 31, 2011 was \$16.4 million this amount was subject to a fluctuating interest rate described below. The remaining borrowings available under the Wells Fargo Credit Facility as of December 31, 2011 were \$9.7 million after consideration of loan covenant restrictions.

At the Company's option, amounts borrowed under the Wells Fargo Credit Facility will bear interest at a fluctuating rate per annum determined by Wells Fargo to be (3.75%) above the Daily One Month LIBOR Rate in effect from time to time.

The Company's Credit Facility requires the Company to maintain certain financial covenants as of the end of each calendar quarter, including the following:

- ☐ Total Liabilities to Tangible Net Worth Ratio not greater than 2.25 to 1.00; and
- ☐ Fixed Charge Coverage Ratio not less than 1.75 to 1.00.

"Total Liabilities" is defined as the aggregate of current liabilities and non-current liabilities. "Tangible Net Worth" is defined as the aggregate of total stockholders' equity less any intangible assets and less any loans or advances to, or investments in, any related entities or individuals. "Fixed Charge Coverage Ratio" is determined on a rolling four-quarter basis and is defined as EBITDA minus cash taxes, divided by interest expense, plus the current maturity

of long-term debt, where EBITDA is net income, plus interest expense, plus income taxes, plus depreciation and amortization, plus stock compensation expense.

The Company was not in compliance with one covenant (Fixed Charge Ratio) under the Wells Fargo Credit Facility as of December 31, 2011; however, Wells Fargo has granted a waiver for the breach of this covenant. For the quarterly

Edgar Filing: ENGLOBAL CORP - Form 10-K

Subtotal long-term debt	17,396	494	475	307	80	18,752
Short-Term Notes	—	—	—	—	—	—
Purchase Order Obligations	—	—	—	—	—	—
Operating leases	3,453	3,033	2,626	2,601	4,724	16,437
Total contractual cash obligations	\$20,849	\$3,527	\$3,101	\$2,908	\$4,804	\$35,189

45

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

¹Future interest consists primarily of interest on the line of credit under the Wells Fargo Credit Facility. The rate applicable to debt outstanding at December 31, 2011 was 4% and fluctuates with the prime rate. Interest and discount rates on the remaining note payable is 5.00% at December 31, 2011.

Non-Cash Transactions

In 2011, there were no non-cash transactions. In 2010, non-cash transactions included \$0.8 million in connection with financing insurance policy premiums and \$0.5 million in discounted notes payable in connection with the acquisition of CDI's operations. In 2009, non-cash transactions included \$0.2 million in discounted notes payable issued in connection with the acquisition of PCI.

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

Derivative Financial Instruments

We do not hold any derivative financial instruments for trading purposes or otherwise. Furthermore, we have not engaged in energy or commodity trading activities and do not anticipate doing so in the future, nor do we have any transactions involving unconsolidated entities or special purpose entities.

Long-term Notes Receivable

In June 2008, ENGlobal filed an action in the United States District Court for the Eastern District of Louisiana; against South Louisiana Ethanol LLC ("SLE") to enforce collection of \$15.8 million owed to ENGlobal and its affiliates for services performed on an ethanol plant in Louisiana. \$12.3 million of the amount due had been documented in the form of a "Hand Note." 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. In connection with the bankruptcy proceedings, the plant assets were sold and the court issued an order allocating proceeds from the sale and authorizing their distribution. ENGlobal received \$209,017 and may receive an additional \$845,500 depending on the outcome of a dispute with subcontractor.

On March 13, 2009, the Company entered into a letter agreement (the "letter agreement") with Alon resolving the payment of accounts receivable invoices in the aggregate amount of \$6.8 million, payable in monthly installments with the final payment in December 2009. The \$6.8 million payment plan included \$4.6 million in subcontractor obligations which were included in our Accounts Payable balances until April 2010 when they were then reclassified to a long-term note payable. Alon made timely payments under the letter agreement until October 2009, when it failed to pay the full amount due. This receivable was reclassified to a short-term note receivable as of December 31, 2010 and paid in full in April 2011.

In 2010, the Company reclassified the accounts receivable balance of \$3.0 million related to the Bigler litigation and subsequent bankruptcy filing to long-term claims receivable. In June 2010, the Company wrote off the long-term claims receivable.

Contingent Liabilities and Commitments

To our knowledge, the Company is not exposed to any environmental liability.

The Company does not have any product liability issues. Lease commitments are included in Footnote 11 of the consolidated financial statements. The Company leases all of its office and fabrication space.

The Company has no off-balance sheet financing arrangements.

Income Tax Provision

We recognize interest related to uncertain tax positions in interest expense and penalties related to uncertain tax positions in governmental penalties. As of December 31, 2011, we have not recognized interest or penalties relating to any uncertain tax positions.

The Company is subject to federal and state income tax audits from time to time that could result in proposed assessments. The Company cannot predict with certainty the timing of such audits, how these audits would be resolved and whether the Company would be required to make additional tax payments, which may or may not include penalties and interest.

The Company is not currently the subject of any examination by the Internal Revenue Service, and the open years subject to audit are tax years 2008-2010. For most states where the Company conducts business, the Company is subject to examination for the preceding three to six years.

Asset Management

47

a valid change order, our gross profit margins are negatively impacted. Billings on time-and-material contracts are produced every two weeks.

On occasion, we serve as purchasing agent by procuring subcontractors, material and equipment on behalf of a client and passing the cost on to the client with no mark-up or profit. Revenue and cost for these types of purchases are not included in total revenue and cost. For financial reporting, this “pass-through” type of transaction is reported net. We

48

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

had \$3.6 million and \$1.0 million of pass-through transactions in 2011 and 2010, respectively. We had no pass-through transactions in 2009.

Revenue on fixed-price contracts is recorded primarily using the percentage-of-completion (cost-to-cost) method. Under this method, revenue on long-term contracts is recognized in the ratio that contract costs incurred bear to total estimated contract costs. Revenue and gross margin on fixed-price contracts are subject to revision throughout the lives of the contracts and any required adjustments are made in the period in which the revisions become known. To manage unknown risks, management uses contingency amounts to increase the estimated costs, therefore, lowering the earned revenues until the risks are better identified and quantified or have been mitigated. We currently have \$5.5 million in contingency. Losses on contracts are recorded in full as they are identified.

The asset, "costs and estimated earnings in excess of billings on uncompleted contracts," represents revenue recognized in excess of amounts billed on fixed-price contracts. The Company's inability to manage significant levels or increases in "costs and estimated earnings in excess of billings on uncompleted contracts" could have a serious impact on the Company's cash flow. The liability "billings in excess of costs and estimated profits on uncompleted contracts" represents amounts billed in excess of revenue recognized on fixed-price contracts.

Change Orders

Change orders are modifications of an original contract that effectively change deliverables under a contract without adding new provisions. We can request change orders, and our clients may initiate them. Change orders may include changes in specifications or design, manner of performance, equipment, materials, scope of work and/or the period of completion of the project.

Change orders occur when changes are experienced once a contract is begun. Change orders are sometimes documented and in most cases the terms of change orders are agreed upon with the client before the work is performed. Other times, circumstances may require that work progress without the client's written agreement before the work is performed. In those cases, we are taking a risk that the customer will not sign a change order or at a later time the customer will seek to negotiate the pricing of the additional work. Costs related to change orders are recognized when they are incurred. Change orders are included in the total estimated contract revenue when it is more likely than not that the change orders will result in a bona fide addition to value that can be reliably estimated.

We have a favorable history of negotiating and collecting for work performed under change orders and our bi-weekly billing cycle has proven to be timely enough to properly account for change orders.

Field Solutions

(\$2.3 million)

These hypothetical changes would not cause step 2 of the goodwill impairment test to be required for any of our reporting units.

50

risk of participating in such investments.

The Company's primary interest rate risk relates to its variable-rate line of credit debt obligation, which totaled \$16.4 million and \$18.7 million as of December 31, 2011 and 2010, respectively. Assuming a 10% increase in the interest rate on this variable-rate debt obligation i.e., an increase from the actual average interest rate of 4.00% as of December 31, 2011, to an average interest rate of 4.40%, annual interest expense would have been approximately

51

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

\$65,000 higher in 2011 based on our annual average line of credit obligation. Due to the current credit market, a greater concern is the impact of a material violation of certain financial covenants in our Credit Agreement resulting in a re-pricing of that agreement. This could not only result in the increased annual interest expense but also a renewal or origination fee of equal proportion on a similar Credit Agreement. The Company does not have any interest rate swap or exchange agreements.

The Company has no market risk exposure in the areas of interest rate risk from investments because the Company did not have an investment portfolio as of December 31, 2011.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currently, the Company does not engage in foreign currency hedging activities. Transactions in Canadian dollars in our former Canadian subsidiary have been translated into U.S. dollars using the current rate method, such that assets and liabilities are translated at the rates of exchange in effect at the balance sheet date and revenue and expenses are translated at the average rates of exchange during the appropriate fiscal period. As a result, the carrying value of the Company's investments in Canada was subject to the risk of foreign currency fluctuations. Additionally, any revenue received from the Company's international operations in other than U.S. dollars will be subject to foreign exchange risk. The percentage of revenue received from foreign customers is identified in the discussion of segment revenue. Most revenue received from foreign customers is paid to the Company in U. S. currency, except for revenue collected by our former Canadian subsidiaries. The Canadian dollar is not subject to volatile price fluctuations compared to the U.S. dollar.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The audited consolidated balance sheets for ENGlobal Corporation, as of December 31, 2011 and 2010 and statements of operations, cash flows and stockholders' equity for the three-year period ended December 31, 2011, are attached hereto and made part hereof.

INDEX

	PAGE
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>55</u>
<u>CONSOLIDATED BALANCE SHEETS</u> <u>December 31, 2011 and 2010</u>	<u>56</u>
<u>CONSOLIDATED STATEMENTS OF OPERATIONS</u> <u>Years Ended December 31, 2011, 2010 and 2009</u>	<u>57</u>
<u>CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY</u> <u>Years Ended December 31, 2011, 2010 and 2009</u>	<u>58</u>
<u>CONSOLIDATED STATEMENTS OF CASH FLOW</u> <u>Years Ended December 31, 2011, 2010 and 2009</u>	<u>59</u>
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>60</u>
<u>SCHEDULE II</u> <u>Valuation and Qualifying Accounts</u>	<u>86</u>

Report of Independent Registered Public Accounting Firm on
Consolidated Financial Statements

Board of Directors
ENGlobal Corporation
Houston, Texas

We have audited the accompanying consolidated balance sheets of ENGlobal Corporation and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2011. We have also audited the schedule listed in the accompanying Item 8. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and schedule are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ENGlobal Corporation and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedule presents fairly, in all material respects, the information set forth, therein in relation to the financial statements taken as a whole.

/s/ Hein & Associates LLP
Hein & Associates LLP
Houston, Texas

April 12, 2012

See accompanying notes to these consolidated financial statements.

56

ENGLOBAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	(dollars in thousands)		
	2011	2010	2009
Operating revenues	\$312,747	\$306,239	\$343,462
Operating costs and expenses:			
Operating costs	285,468	284,282	312,409
Selling, general, and administrative expenses	31,263	39,975	28,027
Total operating costs and expenses	316,731	324,257	340,436
Operating income (loss)	(3,984)	(18,018)	3,026
Interest (expense), net	(1,028)	(442)	(573)
Other income (expense), net	(61)	(319)	174
Income (loss) before income taxes	(5,073)	(18,779)	2,627
Provision (benefit) for federal and state income taxes	(831)	(6,553)	1,394
Income (loss) from continuing operations	(4,242)	(12,226)	1,233
Income (loss) from discontinued operations, net of taxes	(2,834)	474	—
Net Income (Loss)	\$(7,076)	\$(11,752)	\$1,233
Earnings (loss) per common share - Basic and Diluted			
Income (loss) from continuing operations	\$(0.16)	\$(0.45)	\$0.05
Income (loss) from discontinued operations	\$(0.11)	\$0.02	\$—
Net Income (loss)	\$(0.27)	\$(0.43)	\$0.05
Weighted average shares used in computing earnings (loss) per share (in thousands):			
Basic	26,722	27,151	27,330
Diluted	26,722	27,151	27,567

See accompanying notes to these consolidated financial statements.

See accompanying notes to these consolidated financial statements.

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Organization and Operations

ENGlobal Corporation is a Nevada corporation formed in 1994. Unless the context requires otherwise, references to “we”, “us”, “our”, “the Company” or “ENGlobal” are intended to mean the consolidated business and operations of ENGlobal Corporation.

Our business operations consist of providing engineering and other professional project services related to design, fabrication, procurement, maintenance, environmental and other governmental compliance and construction management, primarily with respect to energy sector infrastructure facilities throughout the United States. Please see “Note 18-Segment Information” for a description of our segments and segment operations.

Basis of Presentation

The accompanying consolidated financial statements and related notes present our consolidated financial position as of December 31, 2011 and 2010, and the results of our operations, cash flows and changes in stockholders' equity for the years ended December 31, 2011, 2010 and 2009. They are prepared in accordance with accounting principles generally accepted in the United States of America. Certain amounts for prior periods have been reclassified to conform to the current presentation. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, management reviews its estimates, including those related to percentage-of-completion contracts in progress, litigation, income taxes, impairment of long-lived assets and fair values. Changes in facts and circumstances or discovery of new information may result in revised estimates. Actual results could differ from these estimates.

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 presentation to report discontinued operations. Refer to Note 4.

NOTE 2 - ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Cash and cash equivalents

Cash and cash equivalents include all cash on hand, demand deposits and investments with original maturities of three months or less. We consider cash equivalents to include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The Company is required to collateralize letters of credit outstanding under the Ex-Im Bank Facility with cash or eligible receivables resulting from the Caspian Pipeline Consortium (CPC) project. As of the date of this filing, these letters of credit were collateralized by \$2.3 million in cash, designated as Restricted Cash in the Company's Consolidated Balance Sheet. Refer to Note 10.

The Company utilizes a cash management system whereby bank accounts are swept daily to reduce outstanding balances on the Company's line of credit. Major operating bank accounts are automatically replenished daily to meet check-clearing requirements. Outstanding checks are recorded as a reduction of cash when they are issued. Our checks that have not yet been paid by banks at a reporting date are reclassified to accounts payable in the financial statements. Amounts reclassified to accounts payable for outstanding checks were \$1.9 million and \$1.9 million as of December 31, 2011 and 2010 respectively.

Consolidation Policy

Our consolidated financial statements include our accounts and those of our majority-owned subsidiaries in which we have a controlling interest after the elimination of all material inter-company accounts and transactions. Currently, all of our subsidiaries are wholly-owned. We also consolidate other entities and ventures in which we possess a controlling interest. We evaluate our financial interests in business enterprises to determine if they represent variable interest entities where we are the primary beneficiary. If such criteria are met, we consolidate the financial statements of such businesses with those of our own. We do not currently hold such interests.

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

While we do not currently own any significant equity interests in unconsolidated affiliates and do not frequently conduct our business through such entities, it is our policy to follow the equity method of accounting if our ownership interest is between 20% and 50% and we exercise significant influence over the operating and financial policies of an entity. Our proportionate share of profits and losses from transactions with equity method unconsolidated affiliates is eliminated in consolidation to the extent such amounts are material and remain on our equity method investees' balance sheet in inventory or similar accounts. If our ownership interest in an investee does not provide us with either control or significant influence over the investee, we account for the investment using the cost method.

reportable operating segments for which discreet financial information is available and reviewed by segment management. The fair value of each reporting unit is determined and compared to the carrying value of the reporting unit. If the fair value of the reporting unit is less than the carrying value, including goodwill, then the goodwill is written down to the implied fair value of the goodwill through a charge to expense.

such a position on a tax return not yet filed.

determination or ultimate realization. In estimating the allowance for uncollectible accounts, we consider the length of time receivable balances have been outstanding, historical collection experience, current economic conditions and customer specific information. When we ultimately conclude that a receivable is uncollectible, the balance is charged against the allowance for uncollectible accounts.

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Software Development Costs

ENGlobal capitalizes costs associated with software developed or acquired for internal use when these criteria are met: the preliminary project stage is completed, management authorizes funding for the project and the project is deemed probable of completion. Capitalized costs include external costs of materials and services incurred in obtaining and developing the software and payroll and payroll related costs for employees in proportion to time devoted to the project. Capitalization of these costs ceases no later than the point at which the project is substantially complete and the software is ready for its intended use. Software development costs are included in property and equipment and are amortized on the straight-line basis over five years.

Significant Commercial Relationships

In 2009 and 2010, BASF Corporation accounted for 16% and 11%, respectively, of our consolidated revenues. In 2011, no customer accounted for 10% or more of our consolidated revenues.

Impairment of Long-Lived Assets

Management reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The carrying amount is deemed not recoverable if it exceeds the undiscounted sum of the cash flows expected to result from the use and eventual disposition of the asset. Estimates of expected future cash flows represent management's best estimate based on reasonable and supportable assumptions. If the carrying amount is not recoverable, the impairment loss is measured as the excess of the asset's carrying value over its fair value. Management assesses the fair value of long-lived assets using commonly accepted techniques, and may use more than one method, including, but not limited to, recent third party comparable sales, internally developed discounted cash flow analysis and analysis from outside advisors.

Recent Accounting Pronouncements

In June 2011, the FASB issued guidance which revises the manner in which entities present comprehensive income in their financial statements. The new guidance eliminates the presentation option to report other comprehensive income and its components in the statement of changes in stockholders' equity and requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or in two separate, but consecutive, statements. In December 2011, the FASB deferred indefinitely the effective date for a portion of this guidance relating to the presentation of reclassification adjustments. The remainder of this guidance is effective for interim and annual periods beginning after December 15, 2011. The Company will adopt this guidance on January 1, 2012 and the adoption of this standard will not have a material effect on its financial position or results of operations.

In September 2011, the FASB issued guidance which gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and, in some cases, bypass the two-step impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods beginning after December 15, 2011. The Company will adopt this guidance on January 1, 2012 and the adoption of this standard will not have a material effect on its financial position or operations.

value was \$0.4 million.

66

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PCI Management and Consulting Company

A subsidiary of the Company acquired the operations of PCI Management and Consulting Company ("PCI"), a private Illinois based power consulting business on August 14, 2009. For accounting purposes, the acquisition was an immaterial business combination. Consideration approximated \$1,050,000 in cash and \$200,000 in the form of a note. PCI provides engineering, consulting and project management services, specializing in projects related to the generation, transmission and distribution of energy. PCI's services complement the services historically provided by our Engineering and Construction segment. Results of operations are included in the Engineering and Construction segment beginning August 15, 2009.

The acquisition was structured as a taxable transaction that excluded all monetary assets and liabilities and all contingencies of the acquired business. The Company recognized customer relationships and non-competition covenants as intangible assets. The intangible assets were recognized at their fair values on the acquisition date of \$353,000 and \$177,000 respectively, and are being amortized over five years. The fair values were determined using an income approach methodology that is consistent with previous similar acquisitions.

The residual portion of consideration \$702,000 was recognized as goodwill, all of which is deductible for income tax purposes. Goodwill represents management's estimate of the cost associated with acquiring PCI's power consulting reputation, technical expertise, workforce and the potential synergies with our other energy infrastructure consulting businesses. Acquisition cost of \$6,000 was incurred and expensed as general and administrative expenses during the nine months ended September 30, 2009.

NOTE 4 - DISCONTINUED OPERATIONS

During the third quarter of 2011, as part of its strategic evaluation of operations, the Company determined that the anticipated future performance of the Electrical Services group did not warrant maintaining it as part of the ENGlobal suite of services. As a result, effective July 1, 2011, the Company initiated a plan to sell or, if necessary, ultimately shut down the operations of its Electrical Services group. These assets and their related operations have been classified as discontinued operations and are presented as such in the Company's re-casted consolidated financial statements. The net assets and liabilities related to the discontinued operations are shown on the Consolidated Balance Sheet as Assets held for sale and Liabilities held for sale, respectively. The results of the discontinued operations are shown on the Consolidated Statements of Operations as a loss from discontinued operations, net of taxes.

The Company expects to complete the disposal of its discontinued operations by June 30, 2012. However, we are unable at this time to determine the gain or loss upon the ultimate disposal of the discontinued operations. Gain or loss from the disposal, when ascertained, will be properly disclosed in the notes to the financial statements. The Company will have no continuing involvement with these operations after their disposal.

Summarized financial information for discontinued operations is shown below.

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	For the Quarters Ended - 2011			
	March	June	September	December
	(dollars in thousands)			
Revenues	\$8,160	\$6,511	\$2,292	\$444
Costs	7,733	7,167	3,905	2,919
Operating income (loss)	\$427	\$(656)	) \$(1,613	) \$(2,475)
Other income (expense)	1	—	—	—
Tax expense (benefit)	166	(227)	) (577	) (844)
Net income (loss)	\$262	\$(429)	) \$(1,036	) \$(1,631)

	For the Quarters Ended - 2010			
	March	June	September	December
	(dollars in thousands)			
Revenues	\$—	\$2,490	\$3,942	\$7,944
Costs	—	2,295	3,836	7,483
Operating income (loss)	\$—	\$195	\$106	\$461
Other income (expense)	—	—	—	—
Tax expense (benefit)	—	74	44	170
Net income (loss)	\$—	\$121	\$62	\$291

	December 31, 2011	December 31, 2010
	(dollars in thousands)	
Assets:		
Trade receivables	\$2,391	\$3,599
Prepaid expenses and other current assets	4	(1)
Cost and estimated earnings in excess of billings on uncompleted contracts	138	\$1,983
Deferred Tax Asset	971	\$—
Property and equipment, net	248	\$87
Other assets	5	\$1
Total Assets held for sale	\$3,757	\$5,669
Liabilities:		
Accounts payable	\$430	806
Accrued compensation and benefits	(50)	) 176
Deferred rent	17	—
Billings in excess of costs and estimated earnings on uncompleted contracts	158	286
Other current liabilities	785	—
Total Liabilities held for sale	\$1,340	\$1,268

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - EARNINGS PER SHARE

Earnings per share were computed as follows:

	Reconciliation of Earnings per Share Calculation					
	2011		2010		2009	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(in thousands, except per share amounts)					
Net Income (Loss)	\$(7,076)	\$(7,076)	\$(11,752)	\$(11,752)	\$1,233	\$1,233
Weighted average number of shares outstanding for basic	26,722	—	27,151	—	27,330	—
Weighted average number of shares outstanding for diluted	—	26,722	—	27,151	—	27,567
Net income (loss) per share available for common stock	\$(0.27)	\$(0.27)	\$(0.43)	\$(0.43)	\$0.05	\$0.04

Diluted earnings per share are computed including the impact of all potentially dilutive securities. The following table sets forth the shares outstanding for the earnings per share calculations for the years ended December 31, 2011, 2010 and 2009.

	2011	2010	2009
	(in thousands)		
Common stock issued - beginning of year	26,676	27,407	27,295
Weighted average common stock issued (repurchased)	46	(256)	35
Shares used in computing basic earnings per share	26,722	27,151	27,330
Assumed conversion of dilutive stock options	—	—	237
Shares used in computing diluted earnings per share	26,722	27,151	27,567

The Company excluded potentially issuable shares of 668,000 and 693,000 from the computation of diluted EPS, as the effect of including the shares would have been anti-dilutive for the years ended December 31, 2011 and 2010, respectively.

NOTE 6 - STATEMENT OF CASH FLOWS SUPPLEMENTAL INFORMATION

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

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Non-Cash Transactions:			
Issuance of note for insurance	\$—	\$828	\$—
Issuance of notes in connection with acquisitions- PCI	—	—	182
CDI	—	500	—
Cash paid:			
Interest	\$785	\$297	\$958
State and federal income taxes	(6,005)	673	5,474

August 2009, SLE filed for Chapter 11 protection in the United States Bankruptcy Court for the Eastern District of Louisiana, Case Number 09-12676. In connection with the bankruptcy proceedings, the plant assets were sold and the court issued an order allocating proceeds from the sale and authorizing their distribution. ENGLOBAL received

70

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

\$209,017 and may receive an additional \$845,500 depending on the outcome of a dispute with subcontractors.

The components of other current liabilities as of December 31, 2011 and 2010 are as follows:

	2011	2010
	(in thousands)	
Accrual for known contingencies	\$2,061	\$831
Customer prepayments	655	309
Accrued interest	86	73
Other	270	81
Other current liabilities	\$3,072	\$1,294

Our reserve for known contingencies consists primarily of litigation accruals and related legal fees and earn-out amounts that may become due under the terms of acquisition agreements.

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - CONTRACTS

Costs, estimated earnings and billings on uncompleted contracts consisted of the following at December 31, 2011 and 2010:

	2011	2010
	(in thousands)	
Costs incurred on uncompleted contracts	\$43,455	\$58,829
Estimated earnings on uncompleted contracts	5,591	8,731
Earned revenues	49,046	67,560
Less: billings to date	46,677	65,361
Net costs and estimated earnings in excess of billings on uncompleted contracts	\$2,369	\$2,199
Costs and estimated earnings in excess of billings on uncompleted contracts	\$6,790	\$3,146
Billings in excess of costs and estimated earnings on uncompleted contracts	(4,421	) (947
Net costs and estimated earnings in excess of billings on uncompleted contracts	\$2,369	\$2,199

Revenue on fixed-price contracts is recorded primarily using the percentage-of-completion (cost-to-cost) method. Under this method, revenue on long-term contracts is recognized in the ratio that contract costs incurred bear to total estimated contract costs. Revenue and gross margin on fixed-price contracts are subject to revision throughout the lives of the contracts and any required adjustments are made in the period in which the revisions become known. To manage unknown risks, management may use contingency amounts to increase the estimated costs, therefore, lowering the earned revenues until the risks are better identified and quantified or have been mitigated. We currently have \$5.5 million in contingency as of December 31, 2011 compared to \$0.8 million as of December 31, 2010. Losses on contracts are recorded in full as they are identified.

The Company recognizes service revenue as soon as the services are performed. For clients that we consider higher risk, due to past payment history or history of not providing written work authorizations, we have deferred revenue recognition until we receive either a written authorization or a payment. The current amount of revenue deferred for these reasons is \$0.3 million as of December 31, 2011 compared to \$0.5 million as of December 31, 2010.

NOTE 10 - LINE OF CREDIT AND DEBT

In December 2009, the Company entered into a new credit agreement with Wells Fargo Bank, which provided a 28-month, \$25 million senior secured revolving credit facility (“Wells Fargo Credit Facility”). The Wells Fargo Credit Facility expires on May 31, 2012 and the Company is in the process of obtaining replacement financing. The Wells Fargo Credit Facility is guaranteed by substantially all of the Company's subsidiaries, is secured by substantially all of the Company's assets, and positions Wells Fargo as senior to all other debt. On September 30, 2010, the Company entered into an amendment to the credit agreement with Wells Fargo Bank which converted our borrowings from a revolving credit facility to an asset based lending agreement. On August 1, 2011, the Company entered into an Amended and Restated Credit Agreement with Wells Fargo Bank which allows a maximum available principal amount of \$35 million under the Credit Facility. The Amended and Restated Credit Agreement allows for borrowings limited to an aggregate of 80% of our current eligible accounts receivable. The Wells Fargo Credit Facility is additionally limited by deductions from accounts receivable for items such as invoices past due over 90 days, fixed price work, foreign receivables and government work. These accounts receivable exclusions under the Credit Facility totaled \$8.9 million at December 31, 2011. The Amended and Restated Credit Agreement contains an unused commitment fee of fifty basis points (0.50%) per annum and allows for other indebtedness of up to \$10 million to cover the Ex-Im Bank credit facility, described below, and up to \$1.0 million in any 12-month period for the

unsecured financing of insurance premiums. The outstanding balance on the Wells Fargo Credit Facility as of December 31, 2011 was \$16.4 million

72

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and this amount was subject to a fluctuating rate, described below. The remaining borrowings available under the Wells Fargo Credit Facility as of December 31, 2011 were \$9.7 million after consideration of loan covenant restrictions.

The Amended and Restated Credit Agreement provided for interest at a fluctuating rate per annum determined by Wells Fargo to be 3.75% above the Daily One Month LIBOR Rate in effect from time to time.

The Company's Credit Facility requires the Company to maintain certain financial covenants as of the end of each calendar quarter, including the following:

- Total Liabilities to Tangible Net Worth Ratio not greater than 2.25 to 1.00;
- Fixed Charge Coverage Ratio not less than 1.75 to 1.00;

“Total Liabilities” is defined as the aggregate of current liabilities and non-current liabilities. “Tangible Net Worth” is defined as the aggregate of total stockholders' equity less any intangible assets and less any loans or advances to, or investments in, any related entities or individuals. “Fixed Charge Coverage Ratio” is determined on a rolling four-quarter basis and is defined as EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) minus cash taxes, divided by interest expense, plus the current maturity of long-term debt, where EBITDA is net income, plus interest expense, plus income taxes, plus depreciation and amortization, plus stock compensation expense.

The Company was not in compliance with one covenant (Fixed Charge Ratio) under the Wells Fargo Credit Facility as of December 31, 2011, however, Wells Fargo granted a waiver for the breach of this covenant. For the quarterly period ended December 31, 2011 our Total Liabilities to Tangible Net Worth Ratio was 1.45 to 1.00; and our Fixed Charge Coverage Ratio was .54 to 1.00. During the 12-month period ended December 31, 2011 we expended or committed approximately 19%, or \$0.7 million, of the \$3.5 million fiscal year covenant limitation on capital expenditures. The \$0.7 million balance of our capital expenditures for the 12-month period has been for normal operating requirements including office furniture, computers, software and vehicles.

The Wells Fargo Credit Facility also contains covenants that place certain limitations on the Company including limits on capital expenditures, other indebtedness, mergers, asset sales, investments, guarantees, restrictions on dividends and certain distributions and pledges of assets.

The Wells Fargo Credit Facility has been extended, with an increased interest rate, to May 31, 2012. We are currently in the due diligence phase to secure a new, long-term credit facility from a different lender. We presently have competitive proposals from two major financial institutions to provide long-term financing on terms that are better than our existing Wells Fargo Credit Facility and we are working toward entering into a new credit facility with a multi-year term before the May 31, 2012 extension date on our Wells Fargo Credit Facility. If we are unable to do so, we believe alternative forms of financing are available to us.

In July 2011, with the support of Wells Fargo's Global Banking Group, ENGlobal and the Export-Import Bank of the United States (“Ex-Im Bank”) entered into a \$9.5 million letter of credit facility (the “Ex-Im Bank Facility”) to support the Company's Caspian Pipeline Consortium (CPC) project. Under the terms of this agreement, the Company may issue letters of credit to CPC for its performance under the CPC project. The Company is required to collateralize letters of credit outstanding under the Ex-Im Bank Facility with cash or eligible receivables resulting from the CPC project. As of the date of this filing, there were \$9.1 million in letters of credit outstanding under this facility. This letter of credit is collateralized by \$2.3 million in cash, designated as Restricted Cash in the Company's Consolidated Balance Sheet, per an Ex-Im Bank restriction, until sufficient accounts receivables are created on the Russian portion of the project.

As of December 31, 2011, the Company had other outstanding letters of credit totaling \$4,374,000 primarily to cover self-insured deductibles under both our general liability and our workers' compensation insurance policies.

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-term debt consisted of the following at December 31, 2011 and 2010:

	2011 (in thousands)	2010
Wells Fargo Credit Facility	\$16,352	\$18,698
The following notes are subordinate to the credit facility and are unsecured:		
ICP Transco, Inc.	—	96
Control Dynamics International, L.P.	250	500
Total long-term debt	16,602	19,294
Less: current maturities of long-term debt	(16,602)	(19,042)
Long-term debt, net of current portion	—	252
Borrowings under capital lease	—	51
Less: current maturities of capital lease	—	(51)
Total long-term debt and leases, net of current portion	\$—	\$252

The rate applicable to the Wells Fargo Credit Facility line of credit outstanding at December 31, 2011 and 2010 was 4% and 4.125%, respectively, and fluctuates with the prime rate. Interest and discount rates on the remaining note payable is 5.00% at December 31, 2011. Interest and discount rates on the remainder of the Company's notes payable varied from 5.00% to 6.25%, with the weighted average being 5.63% at December 31, 2010.

Maturities of long-term debt as of December 31, 2011, are as follows:

	Maturities (in thousands)
Years Ending December 31, 2012	\$16,602
Total long-term debt	\$16,602

NOTE 11 -OPERATING LEASES

The Company leases equipment and office space under long-term operating lease agreements. The future minimum lease payments on leases (with initial or remaining non-cancelable terms in excess of one year) as of December 31, 2011 are as follows:

	Operating (in thousands)
Years Ending December 31, 2012	\$3,453
2013	3,033
2014	2,626
2015	2,601
2016 and after	4,724
Total minimum lease payments	\$16,437

Rent expense for the years ended December 31, 2011, 2010 and 2009 was \$4.8 million, \$5.8 million and \$5.9 million, respectively. Certain of our lease agreements may include items such as abated lease payments, capital improvement funding, step rent provisions and escalation clauses that affect the lease payment schedule and do not qualify as contingent rentals. These items have been included in the minimum lease payment amount on a straight-line basis

over the minimum lease term. Any lease payments that are dependent on a factor related to the future use of the property have been excluded from the minimum lease payment amount and are recognized as incurred.

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - EMPLOYEE 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 pipeline inspectors were matched at 50% of employee contributions 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 eliminate its match on all employees. Effective October 21, 2011, the Company reinstated the employer match to 25% of employee contributions up to 6% of employee compensation for all employees. The Company made contributions of \$186,519, \$0 and \$981,768, respectively, for the years ended December 31, 2011, 2010 and 2009.

NOTE 13 - STOCK COMPENSATION PLANS

The Company's 1998 Incentive Plan ("Option Plan") that provided for the issuance of options to acquire up to 3,250,000 shares of common stock expired in June 2008. The Option Plan provided for grants of non-statutory options, incentive stock options, restricted stock awards and stock appreciation rights. All stock option grants were for a ten-year term. Stock options issued to executives and management generally vested over a four-year period, one-fifth at grant date and one-fifth at December 31 of each year until they are fully vested. Stock options issued to directors under the Option Plan vested quarterly over a one-year period. In 2007, no stock options were granted to employees. At the 2007 Annual Meeting of Directors, grants of stock options were approved for 50,000 shares to each non-employee director. In 2008, options were granted to employees to acquire 140,000 shares. All stock options granted had a strike price equal to the market value of the Company's stock on the date of the grant by the Compensation Committee of the Board of Directors.

In June 2009, the Company's stockholders approved a new 2009 Equity Incentive Plan ("Equity Plan") that provides for the issuance of up to 480,000 shares of common stock. The Equity Plan provides for grants of non-statutory options, incentive stock options, restricted stock awards, performance shares, performance units, restricted stock units and other stock-based awards. Grants to employees will generally vest over a four-year period, one-fourth at December 31 of each year until they are fully vested. Grants to non-employee directors will vest quarterly over a one-year period coinciding with their service term.

Stock Options

The Company recognizes stock compensation expense relating to share-based payments in net income using the fair-value measurement method. Under the fair value method, the estimated fair value of awards is charged to expense over the requisite service period, which is generally the vesting period.

The Company did not grant any stock options in 2010 or 2011.

We estimate the volatility of our stock price by using historical volatility looking back 156 weeks. We have considered using a combination of historical and implied volatility derived from traded options on our stock but do not believe that it would materially impact the Company's estimates of future volatility over the expected life of the options. The expected term of options granted has been derived from the simplified method, due to changes in vesting terms and contractual lives of current options compared to our historical grants. We base the estimate of the risk-free

interest rate on the United States Treasury zero-coupon yield curve in effect at the time of grant. We have never paid cash dividends and do not currently intend to pay cash dividends; accordingly, we have assumed a 0% dividend yield.

The following table summarizes total aggregate stock option activity for the period December 31, 2008 through December 31, 2011:

75

ENGLOBAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Vested & Exercisable Balance	Number of Shares Outstanding	Weighted Average Exercise Price
Balance at December 31, 2008	1,050,606	1,173,206	6.82
Granted		—	—
Exercised		(55,000	) 1.32
Canceled or expired		(27,102	) 6.07
Balance at December 31, 2009	1,043,104	1,091,104	7.12
Granted		—	—
Exercised		(54,614	) 1.03
Canceled or expired		(121,490	) 10.10
Balance at December 31, 2010	891,000	915,000	7.14
Granted		—	—
Exercised		(20,000	) 1.13
Canceled or expired		(125,000	) 9.69
Balance at December 31, 2011	750,000	770,000	6.81

The following table summarizes information concerning outstanding and exercisable Company common stock options at December 31, 2011.

Exercise Prices ¹ (series)	Options Outstanding at December 31, 2011	Average Remaining Contractual Life	Options Fully-Vested And Exercisable at December 31, 2011	Unvested Options Balance at December 31, 2011
\$1.81	40,000	2.5	40,000	—
\$1.87	20,000	1.3	20,000	—
\$2.05	2,000	2.2	2,000	—
\$2.32	40,000	1.4	40,000	—
\$2.50	75,000	3.2	75,000	—
\$3.75	150,000	3.5	150,000	—
\$6.83	25,000	4.9	25,000	—
\$9.15	150,000	4.4	150,000	—
\$11.97	18,000	4.3	18,000	—
\$10.93	150,000	5.5	150,000	—
\$9.44	100,000	6.2	80,000	20,000
	770,000		750,000	20,000

¹The exercise price indicates the market value at grant date and is the strike price at exercise. For each series, the exercise price is the weighted average exercise price of the series.

	At December 31, 2011	2010	2009
	(dollars in thousands)		
Total intrinsic value of options:			
Outstanding	\$325	\$145	\$737
Exercisable	325	145	737
Exercised during the year	24	76	107
Available for grant at December 31, 2011			111,281
Weighted-average remaining life of all options outstanding			4.2 years

at December 31, 2011

76

ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock Units

On August 8, 2008, the Company granted restricted stock units equivalent to 6,420 shares of common stock to each of its three non-employee directors. These restricted stock units, granted outside of the Option Plan, were intended to compensate and retain the directors over the one-year service period commencing July 1, 2008. The fair value of the awards was \$93,411 per director based on the market price of \$14.55 per share on the date granted. Upon vesting, which was equally at quarterly intervals, the units became convertible into cash based on the then market price of the Company's shares at each respective vesting date. Each director's vested units were settled for the cash value of \$41,698 on or before July 17, 2009.

We recognize interest related to uncertain tax positions in interest expense and penalties related to uncertain tax positions in governmental penalties. For the years ended December 31, 2011, 2010 and 2009, the Company did not recognize

80

Edgar Filing: ENGLOBAL CORP - Form 10-K

	\$410	\$1,728	\$697	\$2,835
Weighted average amortization period remaining at December 31, 2011 (years)	2.5	2.9	6.7	

81

Quarterly financial information for 2011 and 2010 is as follows:

84

Exchange Commission's ("SEC") rules and forms. Disclosure controls and procedures include processes to accumulate and evaluate relevant information and communicate such information to a registrant's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosures.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

(a)(1) Financial Statements

The consolidated financial statements filed as part of this Form 10-K are listed and indexed in Part II, Item 8.

(a)(2) Schedules

All schedules have been omitted since the information required by the schedule is not applicable, or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

(a)(3) Exhibits

EXHIBIT INDEX

Exhibit No.	Description	Form or Schedule	Incorporated by Reference to:		
			Exhibit No.	Filing Date with SEC	SEC File Number
3.1	Restated Articles of Incorporation of Registrant dated August 8, 2002	10-Q	3.1	11/14/2002	001-14217
3.2	Amendment to the Restated Articles of Incorporation of the Registrant, filed with the Nevada Secretary of State on June 2, 2006	8-A12B	3.1	12/17/2007	001-14217
3.3	Amended and Restated Bylaws of Registrant dated November 6, 2007	10-K	3.3	3/28/2008	001-14217
3.4	Amendments to Amended and Restated Bylaws of Registrant dated April 29, 2008	10-Q	3.2	5/7/2008	001-14217
4.1	Registrant's specimen common stock certificate	S-3	4.1	10/31/2005	333-129336
4.2	Registration Rights Agreement by and among Registrant and Certain Investors named therein dated September 29, 2005	S-3	4.2	10/31/2005	333-129336
4.3	Securities Purchase Agreement by and between Tontine Capital Partners, L.P. and Registrant dated September 29, 2005	S-3	4.5	10/31/2005	333-129336
4.4	Form of Subscription Agreement by and among Registrant, Michael L. Burrow, Alliance 2000, Ltd. and certain subscribers	S-3	4.6	10/31/2005	333-129336
10.1	Option Pool Agreement by and between Industrial Data Systems Corporation and Alliance 2000, Ltd. dated December 21, 2001	10-KSB	10.48	4/1/2002	001-14217
10.2	Amended and Restated Alliance Stock Option Pool Agreement effective December 20, 2006	10-K	10.2	3/28/2008	001-14217
10.3	Second Amended and Restated Alliance Stock Option Agreement dated December 20, 2006	8-K	10.2	5/23/2007	001-14217
10.4	ENGlobal Corporation Incentive Bonus Plan Dated effective July 1, 2009	8-K	10.1	8/17/2009	001-14217
10.5	First Amendment and Restated ENGlobal Corporation Incentive Bonus Plan effective January 1, 2010	10-Q	10.1	5/5/2010	001-14217

Edgar Filing: ENGLOBAL CORP - Form 10-K

10.6	Purchase Agreement by and between ENGlobal and Advanced Control Engineering, LLC dated September 25, 2008	10-Q	10.1	11/7/2008	001-14217
10.7	Promissory Note Payable between Registrant and Frank H McIlwain dated September 30, 2008	10-Q	10.2	11/7/2008	001-14217
10.8	Promissory Note Payable between Registrant and James A Walters dated September 30, 2008	10-Q	10.3	11/7/2008	001-14217

90

Edgar Filing: ENGLOBAL CORP - Form 10-K

Exhibit No.	Description	Incorporated by Reference to:			
		Form or Schedule	Exhibit No.	Filing Date with SEC	SEC File Number
10.9	Promissory Note Payable between Registrant and William M Bosarge dated September 30, 2008	10-Q	10.4	11/7/2008	001-14217
10.10	Promissory Note Payable between Registrant and Matthew R Burton dated September 30, 2008	10-Q	10.5	11/7/2008	001-14217
10.11	Asset Purchase Agreement between ENGlobal Automation Group, Inc. and Control Dynamics International, L.P. dated April 6, 2010	10-Q	10.1	8/5/2010	001-14217
10.12	Promissory Note between ENGlobal Automation Group, Inc. and Control Dynamics International, L.P.	10-Q	10.2	8/5/2010	001-14217
10.13	Second Amended and Restated Lease Agreement between Petrocon Engineering, Inc. and Corporate Property Associates dated February 28, 2002 (Exec I)	10-Q	10.63	8/12/2002	001-14217
10.14	Guaranty and Suretyship Agreement between Industrial Data Systems Corporation and Corporate Property Associates dated April 26, 2002 (Exec I)	10-Q	10.64	8/12/2002	001-14217
10.15	Amended and Restated 1998 Incentive Plan of Registrant dated June 8, 2006	10-K	10.6	3/28/2008	001-14217
10.16	First Amendment to the Amended and Restated 1998 Incentive Plan of Registrant dated June 14, 2007	10-K	10.7	3/28/2008	001-14217
10.17	Form of Incentive Stock Option Award Agreement of 1998 Incentive Plan of Registrant	10-K	10.8	3/28/2008	001-14217
10.18	Form of Non-qualified Stock Option Agreement Granted Outside of 1998 Incentive Plan of Registrant	S-8	10.80	8/24/2005	333-127803
10.19	Form of Restricted Stock Unit Award Agreement between Registrant and its Independent Non-employee Directors	10-Q	10.2	8/11/2008	001-14217
10.20	Form of Restricted Stock Award Agreement of 2009 Equity Incentive Plan between Registrant and its independent directors	10-Q	10.1	8/10/2009	001-14217
10.21		8-K	99.1	6/7/2010	001-14217

Stock Repurchase Program of Registrant effective
June 7, 2010

10.22	Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated January 27, 2005	10-K	10.11	3/28/2008	001-14217
10.23	First Amendment to the Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated April 5, 2005	10-K/A	10.26	3/29/2007	001-14217
10.24	Second Amendment to the Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated June 15, 2005	10-K/A	10.27	3/29/2007	001-14217

Edgar Filing: ENGLOBAL CORP - Form 10-K

Exhibit No.	Description	Form or Schedule	Incorporated by Reference to:		
			Exhibit No.	Filing Date with SEC	SEC File Number
10.25	Third Amendment to the Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated December 28, 2005	10-K/A	10.28	3/29/2007	001-14217
10.26	Fourth Amendment to the Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated February 27, 2006	10-K/A	10.29	3/29/2007	001-14217
10.27	Fifth Amendment to the Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated July 28, 2006	10-K/A	10.30	3/29/2007	001-14217
10.28	Sixth Amendment to the Lease agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated June 20, 2007	10-K	10.17	3/28/2008	001-14217
10.29	Build-to-Suit Lease Agreement between Clay Real Estate Development, L.P. and ENGlobal Corporate Services, Inc., executed March 6, 2008	10-Q	10.1	5/7/2008	001-14217
10.30	First Amendment to the Lease Agreement between Clay Real Estate Development, L.P. and ENGlobal Corporate Services, Inc. executed January 15, 2009	10-K	10.26	3/8/2010	001-14217
10.31	Fourth Amendment to the Lease Agreement between YPI North Belt Portfolio, LLC and ENGlobal Corporate Services, Inc. dated March 1, 2010	10-Q	10.2	5/5/2010	001-14217
10.32	Credit agreement by and between Wells Fargo Bank and Registrant and its subsidiaries dated December 29, 2009	8-K	10.1	1/11/2010	001-14217
10.33	Hand Note between South Louisiana Ethanol LLC and ENGlobal Engineering, Inc dated October 22, 2007	10-Q	10.2	11/9/2007	001-14217
10.34	Collateral Mortgage between South Louisiana Ethanol LLC and ENGlobal Engineering, Inc. dated August 26, 2007	10-Q	10.3	11/9/2007	001-14217
10.35	Collateral Mortgage between South Louisiana Ethanol LLC and ENGlobal Engineering, Inc. dated August 31, 2007	10-Q	10.4	6/14/2007	001-14217

Edgar Filing: ENGLOBAL CORP - Form 10-K

10.36	Amended and Restated ENGGlobal 401(k) Plan effective October 1, 2005	10-K/A	10.22	3/29/2007	001-14217
10.37	First Amendment of the ENGGlobal 401(k) Plan effective December 21, 2001	10-K/A	10.21	3/29/2007	001-14217
10.38	Second Amendment to the ENGGlobal 401(k) Plan effective April 1, 2006	10-K/A	10.23	3/29/2007	001-14217
10.39	Third Amendment to the ENGGlobal 401(k) Plan effective July 1, 2006	10-K/A	10.24	3/29/2007	001-14217
10.40	Fourth Amendment to the ENGGlobal 401(k) Plan effective July 1, 2008	10-K	10.33	3/16/2009	001-14217

92

10.54	Letter of Waiver by and between Wells Fargo Bank, N.A. and Registrant and its subsidiaries dated August 3, 2010	10-Q	10.3	8/5/2010	001-14217
10.55	First Amendment to Credit Agreement and Waiver of Default by and between Wells Fargo Bank, N.A. and Registrant and its subsidiaries entered into as of September 30, 2010	10-Q	10.1	11/5/2010	001-14217
10.56	Revolving Line of Credit Note by and between Wells Fargo Bank, N.A. and Registrant and its subsidiaries dated September 30, 2010	10-Q	10.2	11/5/2010	001-14217

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

ENGlobal Corporation

Dated: April 12, 2012
By: //s// Edward L. Pagano
Edward L. Pagano
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

By: //s// Edward L. Pagano
Edward L. Pagano
Chief Executive Officer

By: //s// John R. Beall
John R. Beall
Chief Financial Officer, Treasurer

By: //s// William A. Coskey
William A. Coskey, P.E.
Chairman of the Board, Director

By: //s// David W. Gent
David W. Gent, P.E., Director

By: //s// Randall B. Hale
Randall B. Hale, Director

By: //s// David C. Roussel
David C. Roussel, Director