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

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

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shortened period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

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

Yes No

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

X

1

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	(Do not check if a smaller reporting company)	Smaller reporting company	X

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

2

ENGlobal Corporation
2011 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

PART I

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

PART II

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

PART III

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

PART IV

ITEM 15.	EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES	89

SIGNATURES

	SIGNATURES	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 St 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.

5

ITEM 1. BUSINESS (continued)

Business Segments

Our segments are strategic business units that offer different services and products and therefore require different marketing and management strategies. In addition to internal growth, historically, our segments have grown through strategic acquisitions, which also served to augment management expertise.

	Percentage of Revenue					
Segments	2011		2010		2009	
Engineering and Construction	56.1	%	52.6	%	44.7	%
Automation	19.9	%	16.2	%	21.1	%
Field Solutions	24.0	%	31.2	%	34.2	%
	100.0	%	100.0	%	100.0	%

Engineering and Construction Segment

	Selected Financial Data		
	2011	2010	2009
	(amounts in thousands)		
Revenue	$175,387	$161,101	$153,675
Operating profit	$7,835	$(5,672)	$4,597
Total assets	$54,464	$53,333	$53,689

General

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. Our Engineering and Construction segment offers 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.

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

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

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

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

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.

ITEM 1. BUSINESS (continued)

Competition

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

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

Automation Segment

	Selected Financial Data		
	2011	2010	2009
	(amounts in thousands)		
Revenue	$62,216	$49,657	$72,322
Operating profit	$2,037	$(1,925)	$4,568
Total assets	$23,247	$24,883	$23,524

General

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

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

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

ITEM 1. BUSINESS (continued)

Competition

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

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

Field Solutions Segment

	Selected Financial Data		
	2011	2010	2009
	(amounts in thousands)		
Revenue	$75,144	$95,481	$117,465
Operating profit	$160	$3,673	$7,475
Total assets	$15,344	$19,702	$24,708

General

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

The need to transport new sources of energy is the primary driver that results in demand for our rights-of-way and inspection services, including pipelines and electric power transmission lines, as well as their related facilities. For example, rights-of-way are required for pipelines that transport oil and gas from imported sources and from newly developed oil reserve basins in the U.S. Rights-of-way are also required for new electric power transmission lines needed to decongest circuits near population centers and to transport a growing amount of wind and solar power located in remote areas. In most cases, these rights-of-ways are acquired prior to the construction phase of the project.

Once the construction phase of the project commences, ENGlobal provides qualified/certified inspectors through our inspection division. Included within the scope of our inspection services is construction management, welding inspection, coating and lining inspection, valves and assembly, pressure vessels, mechanical and associated plant and field process equipment oversight, structural fabrication, field fabrication, shop fabricated skid packages, turnkey responsibility for third party interpretations, process safety management data, ultrasonic thickness and flaw detection, magnetic particle examination, liquid penetrate examination, hydrostatic testing and pigging, holiday testing and vacuum testing.

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

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

Competition

ITEM 1. BUSINESS (continued)

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

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

Acquisitions and Sales

In the past, we have expanded our business through both internal initiatives and through strategic acquisitions. These acquisitions allowed us to (i) expand our client base and the range of services that we provide to our clients, (ii) add new technical capabilities that can be marketed to our existing client base, (iii) grow our business geographically, and (iv) capture more of each project's value. In 2011, we did not target acquisitions as we believed the time and expense required would take away from the successful execution of our Company strategy. In 2012, as part of our Strategic Initiative, we plan to continue to evaluate and assess acquisition opportunities that will either complement our existing business base or that will provide ENGlobal with additional capabilities or geographical coverage.

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

Seasonality

Our revenues are generated by services, and therefore holidays and employee vacations during our fourth quarter exert downward pressure on revenues for that quarter, which is only partially offset by the year-end efforts on the part of many clients to spend any remaining funds budgeted for services and capital expenditures during the year. Our clients' annual budget process is normally completed in the first quarter, which can slow the award of new work at the beginning of the year. Principally due to these factors, our first and fourth quarters are typically less robust than our second and third quarters.

Business Strategy

Our objective is to strengthen the Company's position as a leading full service provider of project delivery services to the energy industry by enhancing our overall range of capabilities in the areas of engineering and construction, automation and field solutions services.

In October 2011, our Executive Management Team created a Strategic Plan for 2012 which included the creation of a new strategy for growth organically, through joint venture and partnership arrangements and through acquisitions. The

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.

ITEM 1. BUSINESS (continued)

Sales and Marketing

ENGlobal derives revenue primarily from three sources: (1) business development, (2) preferred provider/alliance agreements with strategic clients, and (3) referrals from existing customers and industry members.

Our Senior Vice President of Business Development supervises our in-house business development assigned to clients and territories within the United States. Client relationships are nurtured by our geographic advantage of having office locations near our larger customers. By having clients in close proximity, we are able to provide single, dedicated points of contact. Our growth depends in large measure on our ability to attract and retain qualified business development managers and business development personnel with a respected reputation in the energy industry. Management believes that in-house marketing allows for more accountability and control, thus increasing profitability.

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

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

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

ENGlobal develops preferred provider and alliance agreements with clients in order to facilitate repeat business. These preferred provider agreements, also known as master services agreements or umbrella agreements, are typically two to three years in length. Although the agreement is not a guarantee for work under a certain project, ENGlobal generally offers a slightly reduced billing structure to clients willing to commit to arrangements that are expected to provide a steady stream of work. With the terms of the contract settled, add-on projects with these customers are easier to negotiate and can be accepted quickly, without the necessity of a bidding process. Management believes that these agreements can serve to stabilize project-centered operations in the Engineering and Construction segment.

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

Our past acquisition program has provided the benefit of expanding our existing customer base 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.

ITEM 1. BUSINESS (continued)

Customers

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

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

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

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

Overall, our ten largest customers, who vary from one period to the next, accounted for 49% of our total revenue for 2011, 53% of total revenue for 2010 and 50% of total revenue for 2009. Most of our projects are specific in nature and we generally have multiple projects with the same clients. If we were to lose one or more of our significant clients and were unable to replace them with other customers or other projects, our business would be materially adversely affected. Our top three clients in 2011 were BASF Corporation, ExxonMobil and Chevron. Even though we frequently receive work from repeat clients, our client list may vary significantly from year to year. Our potential revenue in all segments is dependent on continuing relationships with our customers.

Engineering and Construction Segment:

In the Engineering and Construction segment, our ten largest customers vary from one year to the next. These customers accounted for 63% of our total revenue for 2011, 73% of total revenue for 2010 and 67% of total revenue for 2009. This segment's top three clients in 2011 were BASF Corporation, Chevron and ExxonMobil.

Although the Engineering and Construction segment frequently receives work from repeat clients, its client list may vary significantly from year to year. In order to generate revenue in future years, we must continue efforts to obtain new engineering and construction management projects. The 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

ITEM 1. BUSINESS (continued)

In the Automation segment, our ten largest customers vary from one year to the next. These customers accounted for 62% of our total revenue for 2011, 62% of total revenue for 2010 and 76% of total revenue for 2009. This segment's top three clients in 2011 were Formosa Plastics Corporation, Anadarko Midstream and Caspian Pipeline Consortium. Foreign customers accounted for 1% of our Automation segment revenue for 2011, 2% of Automation segment revenue for 2010 and 12% of Automation segment revenue for 2009. We closed our Calgary office in 2010; however, less than 1% and 3% of our revenue came from our Canadian operations in 2010 and 2009, respectively.

Although the Automation segment frequently receives work from repeat clients, its client list may vary significantly from year to year. The Automation Segment's clients are primarily in the midstream and downstream process industries, and their needs result primarily from requirements to upgrade obsolete distributed control systems or process analytical equipment. Until 2011, we provided industrial electrical maintenance services, expert supervision and craft labor to our clients in downstream power generation facilities. This division was classified as a discontinued operation effective September 30, 2011.

Field Solutions Segment:

In the Field Solutions segment, our ten largest customers vary from one year to the next. These customers accounted for 78% of our total revenue for 2011, 78% of total revenue for 2010 and 77% of total revenue for 2009. Our top three clients in 2011 were Spectra Energy, Ruby Pipeline and Magellan Midstream Partners. The Field Solutions segment's clients currently consist primarily of pipeline operators or electric utilities, with both types of clients having needs to acquire rights-of-way for pipelines or electric transmission.

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

ITEM 1. BUSINESS (continued)

Contracts

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

	Time-and-material (revenue in thousands)	%	Fixed-price	%
Engineering and Construction	$160,356		$15,031	
Automation	18,767		43,449	
Field Solutions	75,076		68	
Total company	$254,199	81.3 %	$58,548	18.7 %

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

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

Backlog

Backlog represents an estimate of gross revenue of all awarded contracts that have not been completed and will be recognized as revenue over the life of the project. Although backlog reflects business that we consider to be firm, cancellations or scope adjustments may occur. Further, most contracts with clients may be terminated by either party at will, in which case the client would only be obligated to us for services provided through the termination date. As a result, no assurances can be given that the amounts included in backlog will ultimately be realized. In addition, it is not clear how our backlog will be impacted by current or future economic conditions.

At December 31, 2011, our backlog was approximately $302.0 million compared to an estimated $244.2 million at December 31, 2010. We expect the majority of our backlog to be completed during 2012.

ITEM 1. BUSINESS (continued)

The backlog at December 31, 2011 consists of $275.0 million with commercial customers and $27.0 million with the United States government. Backlog on federal programs includes only the portion of the contract award that has been funded. The backlog for each of our segments at December 31, 2011 was as follows:

Engineering and Construction segment	$ 124.0	million
Automation segment	101.7	million
Field Solutions segment	76.3	million

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

Customer Service and Support

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

Dependence Upon Suppliers

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

For example, all of the product components used by our Automation segment are fabricated using components and materials that are available from numerous domestic manufacturers and suppliers. There are approximately five principal suppliers of distributed control systems, each of which can be replaced by an equally viable competitor, and our clients typically direct the selection of their preferred supplier. No one manufacturer or vendor provides products that account for more than 1% of our revenue. Thus, in the vast majority of cases, we anticipate little or no difficulty in obtaining components in sufficient quantities and in a timely manner to support our manufacturing and assembly operations in the Automation segment. Units produced through the Automation segment are normally not produced for inventory and component parts; rather, they are typically purchased on an as-needed basis. By being vendor neutral, ENGlobal is able to provide quality technology and platforms for the design of plant systems such as 3D modeling, process simulation and other technical applications.

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

ITEM 1. BUSINESS (continued)

Patents, Trademarks, Licenses

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

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

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

Government Regulations

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

Employees

As of December 31, 2011, the Company and its subsidiaries employed 1,943 individuals. Of these employees, 1,245 were employed in engineering and related positions, 250 were employed as inspectors, 267 were employed as project support staff, 73 were employed in technical production positions, 84 were employed in administration, finance and management information systems and 24 were employed in sales and marketing. We believe that our ability to recruit and retain highly skilled and experienced technical, sales and management personnel has been and will continue to be critical to our ability to execute our business plan. None of our employees is represented by a labor union or is subject to a collective bargaining agreement. We believe that relations with our employees are good.

ITEM 1. BUSINESS (continued)

Benefit Plans

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

Geographic Areas

In prior years, we had business operations in Calgary, Alberta but we currently do not have Canadian operations. Our U.S. and Canadian revenues over the last three years were:

	2011	2010	2009
	(dollars in thousands)		
US operations revenue	$312,747	$305,897	$341,629
Canadian operations revenue	—	342	1,833
Total revenue	$312,747	$306,239	$343,462

Long-lived assets consist of property, plant and equipment, net of depreciation (“PPE”). Our U.S. and Canadian PPE over the last three years were:

	2011	2010	2009
	(dollars in thousands)		
US operations PPE	$3,384	$4,416	$5,967
Canadian operations PPE	—	—	16
Total PPE	$3,384	$4,416	$5,983

ENGlobal was awarded an engineering, procurement, and commissioning services agreement from the Caspian Pipeline Consortium (CPC). Granted under two contracts, one to the Russian Federation and one to the Republic of Kazakhstan, the three-phase award is expected to have a total value of approximately $85 million over four years. As previously announced by CPC, its shareholders agreed to launch the Expansion Project construction on April 19, 2011.

Under the Russian Federation contract, ENGlobal’s scope includes engineering, procuring equipment, buildings, programming, and fabrication of 230 control system panels for eight new pump stations and the upgrade of three existing pump stations, storage facilities, and marine terminal. The contract for Republic of Kazakhstan consists of engineering, procuring equipment, buildings, and fabrication of 78 control system panels for two new and two existing pump stations, start-up and commissioning services for the local control systems and valves.

ITEM 1A. RISK FACTORS (continued)

ITEM 1A. RISK FACTORS

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

Our indebtedness could limit our ability to finance future operations or engage in other business activities.
As of December 31, 2011, we had $16.4 million of total outstanding indebtedness against our revolving line of credit, which is currently limited to $30.4 million.

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

- our inability to extend the senior revolving credit facility past its current end date of May 31, 2012 or replace it with alternative financing;
- our ability to meet current credit facility financial ratios and covenants;
- our inability to collect accounts receivable within contractual terms;
- client demands for extending contract payment terms;
- material losses and/or negative cash flows on significant projects; and
- clients' failure to pay our invoices timely due to economic conditions or causes.

The Company was not in compliance with all of its covenants under the Wells Fargo Credit Facility as of December 31, 2011 and Wells Fargo waived its default rights with respect to the breach for the fourth quarter of 2011. Wells Fargo has extended the due date of the line of credit from April 30, 2012 to May 31, 2012. We are working on closing a new line of credit, which we believe will have terms better than those of our existing credit facility, on or before May 31, 2012. However, even with a new line of credit, our indebtedness could limit our ability to expand or engage in other business activities, and would have a material adverse impact on our financial condition.

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

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

factor that could materially impact our operating results.

Our 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

ITEM 1A. RISK FACTORS (continued)

frequently reflects multiple projects for individual clients, one major customer may comprise a significant percentage of our backlog at any point in time. Because these significant customers generally contract with us for specific projects, we may lose them in other years as their projects with us are completed. If we do not continually replace them with other customers or other projects, our business could be materially adversely affected. Also, the majority of our contracts can be terminated at will. Although we have long-standing relationships with many of our significant customers, our contracts with these customers are on a project-by-project basis and the customers may unilaterally reduce or discontinue their purchases at any time. In addition, dissatisfaction with the results of a single project could have a much more widespread impact on our ability to get additional projects from a single major client. The loss of business from any one of such customers could have a material adverse effect on our business or results of operations.

Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an uncertain indicator of our future revenue or earnings.
As of December 31, 2011, our backlog was approximately $302.0 million. We cannot assure investors that the revenue projected in our backlog will be realized or, if realized, will result in profits. Projects currently in our backlog may be canceled or may remain in our backlog for an extended period of time prior to project execution and, once project execution begins, it may occur unevenly over the current and multiple future periods. In addition, project terminations, suspensions or reductions in scope occur from time to time with respect to contracts reflected in our backlog, reducing the revenue and profit we actually receive from contracts reflected in our backlog. Future project cancellations and scope adjustments could further reduce the dollar amount of our backlog and the revenue and profits that we actually earn. These adjustments are exacerbated by current economic conditions.

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

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

If we are unable to collect our receivables, our results of operations and cash flows could be adversely affected.
Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for work performed and materials supplied. We bear the risk that our clients will pay us late or not at all. Though we

evaluate and attempt to monitor our clients' financial condition, there is no guarantee that we will accurately assess their creditworthiness. Even if they are credit-worthy, they may delay payments in an effort to manage their cash flow. Financial difficulties or business failure experienced by one or more of our major customers has had and could, in the future, continue to have a material adverse effect on both our ability to collect receivables and our results of operations.

ITEM 1A. RISK FACTORS (continued)

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

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

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

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

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

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

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

ITEM 1A. RISK FACTORS (continued)

or estimates have in the past and may continue to adversely affect future period financial performance.

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

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

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

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

Unsatisfactory safety performance can affect customer relationships, result in higher operating costs and result in high employee turnover.
Our workers are subject to the normal hazards associated with providing services on constructions sites and industrial facilities. Even with proper safety precautions, these hazards can lead to personal injury, loss of life, damage to, or

destruction of property, plant and equipment, and environmental damages. We are intensely focused on maintaining a safe environment and reducing the risk of accidents across all of our job sites. However, poor safety performance may limit or eliminate potential revenue streams from many of our largest customers and may materially increase our future insurance and other operating costs. In hiring new employees, we normally target experienced personnel;

ITEM 1A. RISK FACTORS (continued)

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

Our Board of Directors has authorized an increase in the number of shares in our Equity Incentive Plan. This, combined with other possible sales of ENGlobal common stock could result in a decrease in the market value to existing stockholders of the shares they hold.
Our Articles of Incorporation authorize our Board of Directors to issue up to an additional 48,177,482 shares of common stock and an additional 2,000,000 shares of blank check preferred stock as of the date of filing. These shares may be issued without stockholder approval unless the issuance is 20% or more of our outstanding common stock, in which case the NASDAQ requires stockholder approval. We may issue shares of stock in the future in connection with acquisitions or financings. In addition, we may issue restricted stock or options under our 2009 Equity Incentive Plan. Future issuances of substantial amounts of common stock, or the perception that these sales could occur, may affect the market price of our common stock. In addition, the ability of the Board of Directors to issue additional stock may discourage transactions involving actual or potential changes of control of the Company, including transactions that otherwise could involve payment of a premium over prevailing market prices to holders of our common stock.

ITEM 2. PROPERTIES

Facilities

We lease space in 11 buildings in the U.S. totaling approximately 339,000 square feet. The leases have remaining terms ranging from monthly to seven years and are on terms that we consider commercially reasonable. ENGlobal has no major encumbrances related to these properties.

Our principal office is located in Houston, Texas. We have other offices in Beaumont and Freeport, Texas; Baton Rouge and Lake Charles, Louisiana; Blackwell, Oklahoma; Denver, Colorado; Mobile, Alabama; Tulsa, Oklahoma, and Chicago, Illinois. Approximately 230,000 square feet of our total office space is designated for our professional, technical and administrative personnel. We believe that our office and other facilities are well maintained and adequate for existing and planned operations at each operating location.

Our Automation segment performs fabrication assembly in its Houston, Texas shop facility with approximately 104,000 square feet of space.

ITEM 3. LEGAL PROCEEDINGS

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

In June 2008, ENGlobal filed an action in the United States District Court for the Eastern District of Louisiana; Case Number 08-3601, against South Louisiana Ethanol LLC (“SLE”) entitled ENGlobal Engineering, Inc. and ENGlobal Construction Resources, Inc. vs. South Louisiana Ethanol, LLC. The lawsuit sought to enforce collection of $15.8 million owed to ENGlobal and its affiliates for services performed on an ethanol plant in Louisiana. In August 2009, SLE filed for Chapter 11 protection in the United States Bankruptcy Court for the Eastern District of Louisiana, Case Number 09-12676. 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 an on-going dispute with a subcontractor.

On July 7, 2010, a class action lawsuit was filed in the United States District Court for the Southern District of Texas, Houston Division entitled “Michael Phillips, on behalf of Himself and Others Similarly Situated, v. ENGlobal

22

ITEM 3. LEGAL PROCEEDINGS (continued)

Corporation." The lawsuit was filed on behalf of approximately 200 welding inspectors seeking damages for violations of the Fair Labor Standards Act. The plaintiffs sought unpaid overtime, liquidated damages, attorneys' fees, costs and expenses. While ENGlobal settled the wage and hour portion of the lawsuit and modified its pay practices, the suit was amended to include a retaliation claim involving approximately five of the class members. That portion of the claim is still pending but it is not expected to have a material adverse effect on our results of operations or financial position.

PART II

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

Market Information and Holders

The Company's common stock has been quoted on the NASDAQ Global Stock Market (NASDAQ) under the symbol “ENG.” Newspaper and on-line stock listings identify us as “ENGlobal.”

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

	Fiscal Year Ended December 31			
	2011		2010	
	High	Low	High	Low
First quarter	$5.47	$3.55	$3.48	$2.77
Second quarter	4.41	3.00	3.64	2.06
Third quarter	4.20	2.71	2.60	2.10
Fourth quarter	2.96	2.05	3.79	2.41

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

As of December 31, 2011, approximately 238 stockholders of record held the Company's common stock. We do not have information regarding the number of holders of beneficial interests in our common stock.

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

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

Performance Table

The following table compares the five-year cumulative total stockholder return of ENGlobal Corporation as compared to the NASDAQ Market Index and a self-instructed peer group index, consisting of the following companies: Furmanite Corporation (formerly Xanser Corporation), Michael Baker Corporation, Matrix Service Company, Tetra Tech, Inc., Willbros Group and VSE Corporation. The table assumes an investment of $100.00 in our common stock and each index (including reinvestment of dividends) on December 31, 2006 and shown through December 31, 2011.

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

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

	2006	2007	2008	2009	2010	2011
ENGLOBAL CORP.	$100.00	$176.67	$50.54	$48.68	$57.85	$32.81
NASDAQ MARKET INDEX (U.S.)	$100.00	$110.26	$65.65	$95.19	$112.10	$110.81
PEER GROUP INDEX	$100.00	$156.73	$101.16	$123.75	$108.70	$81.88

ASSUMES $100 INVESTED ON DECEMBER 31, 2006
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDED DECEMBER 31, 2011

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

Equity Compensation Plan Information

The following table sets forth certain information concerning the Company's equity compensation plans as of December 31, 2011. See Note 13 in the attached financial statements.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)		Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans {Excluding Securities in Column (a)} (c)
Equity compensation plan approved by security holders	770,000	(1)	$6.81	0
Equity incentive plan approved by security holders	145,819	(2)	$2.90	111,281

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

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

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

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

Dividend Policy

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

Stock Repurchase Program

Effective May 14, 2010, our Board of Directors authorized a total expenditure of $2.5 million to repurchase shares of the Company's common stock. Through open market purchases under this authorization, we purchased 981,099 shares at an average cost of $2.41 per share during the twelve months ended December 31, 2010. No shares were purchased during the twelve months ended December 31, 2011. At December 31, 2011, approximately $0.1 million remains authorized in the stock repurchase program. The program does not have an expiration date. Restrictions, contained in our loan agreements governing our credit facility with Wells Fargo Bank, limit the amount of our common stock that we can repurchase and in accordance with amendments to the loan agreement with Wells Fargo, the Company does not currently intend to purchase additional shares under this program.

ITEM 6. SELECTED FINANCIAL DATA

Summary Selected Historical Consolidated Financial Data

The following tables set forth our selected financial data. The data for the years ended December 31, 2011, 2010 and 2009 have been derived from the audited financial statements appearing elsewhere in this document. The data as of December 31, 2008 and 2007 have been derived from audited financial statements not appearing in this document. You should read the selected financial data set forth below in conjunction with our financial statements and the notes thereto included in Part II, Item 8; Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations;” and other financial information appearing elsewhere in this document.

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Statement of Operations					
Revenue					
Engineering and Construction	$175,387	$161,101	$153,675	$265,331	$233,772
Automation	62,216	49,657	72,322	59,730	37,766
Field Solutions	75,144	95,481	117,465	168,271	91,689
Total revenue	$312,747	$306,239	$343,462	$493,332	$363,227
Costs and expenses					
Engineering and Construction	160,033	148,848	142,272	224,391	188,907
Automation	56,132	47,106	63,619	52,245	34,382
Field Solutions	69,303	88,328	106,518	152,889	82,321
Selling, general and administrative	31,263	39,975	28,027	32,208	34,291
Total costs and expenses	$316,731	$324,257	$340,436	$461,733	$339,901
Operating income (loss)	$(3,984)	$(18,018)	$3,026	$31,599	$23,326
Interest income (expense), net	(1,028)	(442)	(573)	(1,636)	(2,514)
Other income (expense), net	(61)	(319)	173	64	(138)
Foreign currency gain (loss)	—	—	1	(4)	(1)
Income (loss) from continuing operations before provision for income taxes	$(5,073)	$(18,779)	$2,627	$30,023	$20,673
Provision for income taxes	(831)	(6,553)	1,394	11,765	8,209
Income (loss) from continuing operations	$(4,242)	$(12,226)	$1,233	$18,258	$12,464
Income (loss) from discontinued operations, net of taxes	$(2,834)	$474	$—	$—	$—
Net income (loss)	$(7,076)	$(11,752)	$1,233	$18,258	$12,464

ITEM 6. SELECTED FINANCIAL DATA (continued)

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Per Share Data					
Basic earnings (loss) per share					
Continuing operations	$(0.16)	$(0.45)	$0.05	$0.67	$0.46
Discontinued operations	(0.11)	0.02	—	—	—
Net income (loss) per share	$(0.27)	$(0.43)	$0.05	$0.67	$0.46
Weighted average common shares outstanding - basic (000's)	26,722	27,151	27,330	27,180	26,916
Diluted earnings (loss) per share					
Continuing operations	$(0.16)	$(0.45)	$0.04	$0.66	$0.45
Discontinued operations	(0.11)	0.02	—	—	—
Net income (loss) per share	$(0.27)	$(0.43)	$0.04	$0.66	$0.45
Weighted average common shares outstanding - diluted (000's)	26,722	27,151	27,567	27,672	27,435
Cash Flow Data					
Operating activities, net	$5,579	$(6,151)	$23,002	$8,346	$(1,980)
Investing activities, net	(2,874)	(3,026)	(4,205)	(2,871)	(1,614)
Financing activities, net	(2,729)	9,079	(19,673)	(5,273)	3,074
Exchange rate changes	1	4	19	(110)	25
Net change in cash and cash equivalents	$(23)	$(94)	$(857)	$92	$(495)
Balance Sheet Data					
Working capital	$26,675	$30,200	$36,308	$58,586	$42,915
Property and equipment, net	$3,384	$4,416	$5,983	$5,744	$6,472
Total assets	$104,179	$110,324	$110,635	$152,705	$119,590
Long-term debt, net of current portion	$—	$252	$6,098	$23,614	$29,318
Long-term capital leases, net of current portion	$—	$—	$51	$243	$—
Stockholders' equity	$58,500	$65,102	$78,711	$76,766	$55,797

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

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

Overview

Results of Operations

While ENGlobal continues to face a number of challenges, we are cautiously optimistic about the prospects for 2012. Despite recognizing losses in 2011, we have experienced a significant improvement in our financial results, as compared to 2010, reducing losses by 40%. In this regard, we have successfully reduced our expenses by reducing employee headcount, closing offices, as appropriate, discontinuing underperforming divisions, and creating an enhanced

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

operational focus on cost controls. Cross-selling efforts through our “One ENGlobal” program are beginning to come to fruition with several large projects now underway and products such as the ENGlobal Power Island appear to create significant potential for growth. In addition, we are seeing an increase in capital project spending in the downstream refining, chemicals and petrochemicals sectors. Our Wells Fargo Credit Facility expires on May 31, 2012. However, we have competitive proposals from two major financial institutions and we are working toward entering into a new credit facility prior to that date or in obtaining an alternative source of financing. While there can be no assurances that these challenges will be resolved, we believe that 2012 may be the year we will return to profitability and growth.

Despite the relative increase in capital project spending in certain limited markets, we believe that overall, client spending continues to be limited, which we believe may be due to the uncertainty experienced by businesses in a presidential election year and the possible impact of proposed regulation of the oil and gas industry, such as the proposed fracking legislation.

In addition, pricing continues to be very competitive. However, we have an ongoing, extremely focused marketing effort and we have seen an increase in proposal activity, as well as an increase in backlog. In particular, we are focused on international expansion as we believe that the many significant projects will be located outside of the United States. Our “One ENGlobal” philosophy is resulting in cross-selling on large projects, and we expect to see this type of activity continue. Despite these efforts, we have not seen a significant increase in awards, and revenues increased only minimally from 2010 to 2011, a situation which is receiving considerable management attention.

Employee recruitment and retention continues to be an issue we are addressing. To this end, we have improved employee benefits (although not to 2009 levels) and we believe employee morale has improved. Nevertheless, the market for qualified employees has become very active and, even after employees are hired, retention in a tight labor market has been challenging. We continue our efforts to improve on timely collection of accounts receivable, and to focus on improving our internal systems, such as accounting and human resources. We have encountered issues with collection of accounts receivable on a large international project due to administrative matters and this has had a negative impact on our cash flow but we believe that the issues surrounding this payment will be resolved in the short term.

We continue our efforts to improve on timely collection of accounts receivable, and to focus on improving our internal systems, such as accounting and human resources.

For several years, ENGlobal has worked through certain litigation matters that have been the cause of a material portion of our losses. While additional issues will undoubtedly arise in the future, we have resolved or established reserves which we believe to be adequate for material outstanding litigation issues.

With the exception of reclassifications related to our discontinued operations (see below), total amounts reported for prior periods will remain the same, but amounts reported on a segment basis are reported in the three segments that the Company now operates in, rather than the four segments in which the Company previously operated and reported.

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 a 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 terminate 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. 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)

sectors throughout the United States. Services provided by the Engineering and Construction segment include feasibility studies, engineering, design, procurement and construction management. The Automation segment provides services related to the design, fabrication and implementation of process distributed control and analyzer systems, advanced automation, information technology, electrical and heat tracing projects primarily to the upstream and downstream sectors throughout the United States as well as specific projects in the Middle East and Central Asia. 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.

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

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

Operating SG&A expense includes management and staff compensation, office costs such as rents and utilities, depreciation, amortization, travel, bad debt and other expenses generally unrelated to specific client contracts, but directly related to the support of a segment's operations.

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

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

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

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

For the twelve months ended December 31, 2011 (dollars in thousands)	Engineering and Construction	Automation	Field Solutions	All Other	Consolidated		
Revenue before eliminations	$175,387	$62,216	$75,144	$—	$312,747		
Inter-segment eliminations	—	—	—	—	—		
Revenue	175,387	62,216	75,144	—	312,747	100.0	%
Gross profit	15,354	6,084	5,841	—	27,279	8.7	%
SG&A	7,519	4,047	5,681	14,016	31,263	10.0	%
Operating income (loss)	7,835	2,037	160	(14,016)	(3,984)	(1.3	)%
Other income (expense)					(61)	—	%
Interest income (expense)					(1,028)	(0.3	)%
Tax provision					831	0.3	%
Net loss from continuing operations					$(4,242)	(1.4	)%
Diluted earnings per share from continuing operations					$(0.16)		

For the twelve months ended December 31, 2010 (dollars in thousands)	Engineering and Construction	Automation	Field Solutions	All Other	Consolidated		
Revenue before eliminations	$161,149	$51,020	$95,481	$—	$307,650		
Inter-segment eliminations	(48)	(1,363)	—	—	(1,411)		
Revenue	161,101	49,657	95,481	—	306,239	100.0	%
Gross profit	12,253	2,551	7,153	—	21,957	7.2	%
SG&A	17,925	4,476	3,480	14,094	39,975	13.1	%
Operating income (loss)	(5,672)	(1,925)	3,673	(14,094)	(18,018)	(5.9	)%
Other income (expense)					(319)	(0.1	)%
Interest income (expense)					(442)	(0.1	)%
Tax provision					6,553	2.1	%
Net loss from continuing operations					$(12,226)	(4.0	)%
Diluted earnings per share from continuing operations					$(0.45)		

Increase/(Decrease) in 2011 to 2010 Operating Results (dollars in thousands)	Engineering and Construction	Automation	Field Solutions	All Other	Consolidated		
Revenue before eliminations	$14,238	$11,196	$(20,337)	$—	$5,097		
Inter-segment eliminations	48	1,363	—	—	1,411		
Revenue	14,286	12,559	(20,337)	—	6,508	2.1	%
Gross profit	3,101	3,533	(1,312)	—	5,322	24.2	%
SG&A	(10,406)	(429)	2,201	(78)	(8,712)	(21.8	)%
Operating income (loss)	13,507	3,962	(3,513)	78	14,034	(77.9	)%
Other income (expense)					258	(80.9	)%
Interest income (expense)					(586)	132.6	%

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

32

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

Ended December 31, 2010 and 2009

For the twelve months ended December 31, 2010 (dollars in thousands)	Engineering and Construction	Automation	Field Solutions	All Other	Consolidated		
Revenue before eliminations	$161,149	$51,020	$95,481	$—	$307,650		
Inter-segment eliminations	(48)	(1,363)	—	—	(1,411)		
Revenue	161,101	49,657	95,481	—	306,239	100.0	%
Gross profit	12,253	2,551	7,153	—	21,957	7.3	%
SG&A	17,925	4,476	3,480	14,094	39,975	13.1	%
Operating income (loss)	(5,672)	(1,925)	3,673	(14,094)	(18,018)	(5.9)	%
Other income (expense)					(319)	(0.1)	%
Interest income (expense)					(442)	(0.1)	%
Tax provision					6,553	2.1	%
Net loss from continuing operations					$(12,226)	(4.0)	%
Diluted earnings per share from continuing operations					$(0.45)		

For the twelve months ended December 31, 2009 (dollars in thousands)	Engineering and Construction	Automation	Field Solutions	All Other	Consolidated		
Revenue before eliminations	$154,807	$72,418	$118,330	$—	$345,555		
Inter-segment eliminations	(1,132)	(96)	(865)	—	(2,093)		
Revenue	153,675	72,322	117,465	—	343,462	100.0	%
Gross profit	11,403	8,703	10,947	—	31,053	9.0	%
SG&A	6,806	4,135	3,472	13,614	28,027	8.2	%
Operating income (loss)	4,597	4,568	7,475	(13,614)	3,026	0.9	%
Other income (expense)					174	0.1	%
Interest income (expense)					(573)	(0.2)	%
Tax provision					(1,394)	(0.4)	%
Net income from continuing operations					$1,233	0.4	%
Diluted earnings per share from continuing operations					$0.04		

Increase/(Decrease) in 2010 to 2009 Operating Results (dollars in thousands)	Engineering and Construction	Automation	Field Solutions	All Other	Consolidated		
Revenue before eliminations	$6,342	$(21,398)	$(22,849)	$—	$(37,905)		
Inter-segment eliminations	1,084	(1,267)	865	—	682		
Revenue	7,426	(22,665)	(21,984)	—	(37,223)	(10.8)	%
Gross profit	850	(6,152)	(3,794)	—	(9,096)	(29.3)	%
SG&A	11,119	341	8	480	11,948	42.6	%
Operating income (loss)	(10,269)	(6,493)	(3,802)	(480)	(21,044)	(695.4)	%
Other income (expense)					(493)	(283.3)	%

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)	

33

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

OVERALL COMPARISONS

Revenue

The $6.5 million overall increase in revenue for the twelve months ended December 31, 2011, as compared to the comparable 2010 period, resulted from an increase of $12.5 million in our Automation segment and $14.3 million to our Engineering and Construction segment, offset by a decrease of $20.3 million in our Field Solutions segment. Overall revenue increased in 2011 as a result of project work from new clients. However, the majority of the increase was due to $21.9 million of additional work from existing clients. In addition, 2011 revenues were impacted by existing projects that were either finished or saw significantly diminished activity during the 12-month period. Our clients are continuing to perform “run and maintain” type smaller projects which focus on work for required maintenance to keep the plant up and running but not on new capital expansions. Competition for the project work on the market continues to be intense.

Our revenue decrease from 2009 to 2010 was a result of our clients' continued cancellation or delay of scheduled capital projects due to the economy in general, lower energy commodity prices and lower energy processing margins. Our clients were continuing to perform “run and maintain” type smaller projects which focus on work for required maintenance to keep the plant up and running but not on new capital expansions. Competition had also increased greatly for the amount of project work on the market. In addition, 2010 revenues were impacted by the completion of several larger projects which were not replaced with new project work.

Gross Profit

The increase in gross profit as a percentage of revenue in 2011 relative to 2010 was caused by several factors including lower travel expenses as part of an operational focus on cost control, lower material costs as a function of current project requirements and lower variable labor costs due to an operational focus on utilization, resulting in higher margins.

The decrease in gross profit as a percentage of revenue in 2010 relative to 2009. was caused by several factors including lower utilization of our billable resources, resulting in increased overhead costs to retain employees, increased overhead costs to expand our marketing to new sectors and new clients, increased per-employee costs of benefits and market pressure to renegotiate some of our existing contracts, resulting in lower margins. Also, we had significant increases in procurement activities which are generally performed at lower margins than labor.

Selling, General and Administrative (“SG&A”) Expenses

The decrease in operating SG&A expense for the twelve months ended December 31, 2011, as compared to the comparable 2010 period, primarily consisted of decreases in bad debt expense of $9.7 million mainly attributable to the SLE receivable write off in 2010. Also, the Electrical Services group in our Automation segment moved to a smaller facility, reducing facilities expense by $0.3 million. We are now in the process of selling certain Electrical assets and terminating the operations of that division which should further decrease our SG&A.

The increase in operating SG&A expense for the twelve months ended December 31, 2010, as compared to the comparable 2009 period, primarily consisted of increases in bad debt expense of $9.7 million mainly attributable to the SLE write off, net of allowance adjustments, $1.0 million in professional services expenses, $0.4 million in salaries and employee related expenses, $0.2 million in depreciation and amortization expenses and $0.1 million in taxes, offset by decreases of $0.1 million in stock compensation expense.

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.

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

The increase in all other SG&A expense for the twelve months ended December 31, 2010, as compared to the comparable 2009 period, was primarily the result of increases of $1.1 million in salaries and employee related expenses, offset by decreases of $0.3 million in depreciation and amortization expense, $0.1 million in stock compensation expense, $0.1 million in professional services expenses and $0.1 million in office expenses. As a percentage of revenue, all other SG&A expense increased to 4.6% for the twelve months ended December 31, 2010, from 4.0% for the comparable prior year period.

Operating Profit

The increase in operating income for the twelve months ended December 31, 2011, as compared to the comparable 2010 period, was attributable to higher revenue levels as well as decreased costs for both travel expenses and variable labor, due to increased focus on cost controls and improved utilization. These decreased costs contributed to higher operating income as a percentage of revenue.

The decrease in operating income for the twelve months ended December 31, 2010, as compared to the comparable 2009 period, was attributable to lower revenue levels as well as increased costs for both new sales efforts, maintaining core employees at a time when the Company had fewer projects and the SLE and Bigler write offs. These increased costs contributed to lower operating income as a percentage of revenue as well as decreased contract margins in response to market pressures.

Other Income (Expense)

Other expense decreased in 2011 compared to the same period in 2010 due mainly to a decrease in investments written off in 2010 of approximately $413,000 compared to other expenses in 2011 of approximately $61,000. Other expense in 2011 consisted primarily of approximately $57,000 paid in government penalties. Other expense for the same period in 2010 mainly consisted of $413,000 to write off an investment with a developer that was unable to obtain project financing and $56,000 in taxes, offset by income of $150,000 for a legal settlement. Other income in 2009 mainly consisted of $315,000 from insurance proceeds related to Hurricane Ike, offset by expense of $145,000 in losses from an investment in a Costa Rican company.

Interest Income (Expense)

Interest expense increased between 2011 and 2010 due to the increase in our credit facility as well as increasing interest rates in 2011, as compared to 2010. Interest expense decreased between 2010 and 2009 due to the lower balances on our line of credit throughout most of the year.

Net Income (Loss)

As a result of changes detailed above, Net Income increased $4.7 million to a loss of $7.1 million in 2011 from a loss of $11.8 million in 2010, increasing as a percentage of total revenue from (4.0)% in 2010 to (1.4)% in 2011. Net Income decreased $13.0 million to a loss of $11.8 million in 2010 from net income of $1.2 million in 2009, decreasing as a percentage of total revenue from 0.4% in 2009 to (4.0)% in 2010.

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

2011 Compared to 2010 and 2010 Compared to 2009

Engineering and Construction Segment:

	Twelve Months Ended December 31,					
	2011		2010		Increase/(Decrease)	
	(dollars in thousands)					
Revenue before eliminations	$175,387		$161,149		$14,238	
Inter-segment eliminations	—		(48)		48	
Total revenue	$175,387		$161,101		$14,286	
Detailed revenue						
Detail-design	$124,505	71.0 %	$70,123	43.5 %	$54,382	77.6 %
Field services	15,508	8.8 %	59,972	37.2 %	(44,464)	(74.1)%
Procurement services	17,563	10.0 %	17,200	10.7 %	363	2.1 %
Fixed-price	17,811	10.2 %	13,806	8.6 %	4,005	29.0 %
Total revenue	$175,387	100.0 %	$161,101	100.0 %	$14,286	8.9 %
Gross profit	15,354	8.8 %	12,253	7.6 %	3,101	25.3 %
Operating SG&A expense	7,519	4.3 %	17,925	11.1 %	(10,406)	(58.1)%
Operating income (loss)	$7,835	4.4 %	$(5,672)	(3.5)%	$13,507	238.1 %

	Twelve Months Ended December 31,					
	2010		2009		Increase/(Decrease)	
	(dollars in thousands)					
Revenue before eliminations	$161,149		$154,807		$6,342	
Inter-segment eliminations	(48)		(1,132)		1,084	
Total revenue	$161,101		$153,675		$7,426	
Detailed revenue						
Detail-design	$70,123	43.5 %	$92,181	60.0 %	$(22,058)	(23.9)%
Field services	59,972	37.2 %	57,246	37.2 %	2,726	4.8 %
Procurement services	17,200	10.7 %	399	0.3 %	16,801	4,210.8 %
Fixed-price	13,806	8.6 %	3,849	2.5 %	9,957	258.7 %
Total revenue	$161,101	100.0 %	$153,675	100.0 %	$7,426	4.8 %
Gross profit	12,253	7.6 %	11,403	7.4 %	850	7.5 %
Operating SG&A expense	17,925	11.1 %	6,806	4.4 %	11,119	163.4 %
Operating income	$(5,672)	(3.5)%	$4,597	3.0 %	$(10,269)	(223.4)%

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

Revenue

Engineering and Construction revenue accounted for 56.1% of our total revenue for 2011. Revenue gains are due to an increase in capital project spending in the downstream refining, chemicals and petrochemicals sectors along with increased spending in the midstream sector. This is consistent with our strategic long-term view of these markets. The Engineering and Construction segment's estimated backlog at December 31, 2011 was $124.0 million.

Our detail design service revenues increased by 77.6% from 2010 to 2011, but decreased by 23.9% from 2009 to 2010. The increase in 2011 reflects the increased capital spending by our traditional clients for both in-plant seconded technical staff and for engineering, design, procurement and construction management services. The decrease in 2010 was mainly due to decreased demand for engineering and related professional services for energy related projects. This decrease in demand was caused by delayed or canceled capital project work by clients in reaction to the economy. This area of service revenues was impacted the most due to the level of capital work that is performed in this area.

Our field services revenues decreased by 74.1% from 2010 to 2011, but increased by 4.8% from 2009 to 2010. In 2011, our clients' demands decreased as a reaction to the economy. However, we are now exploring the possibility of marketing to a broader range of prospective clients.

Revenue from procurement services increased 2.1% from 2010 to 2011 and increased significantly from 2009 to 2010. The increase in 2011 was the result of additional volume of procurement for EPC contracts due to increases in midstream and government services arenas. The significant increase in 2010, as compared to the comparable 2009 period, was due to work performed for a new client that was expanding a gas field with exhuming, holding and loading functionality.

Fixed-price revenues increased 258.7% from 2009 to 2010 and again by 29.0% from 2010 to 2011. Due to the current economy and increased activity in the midstream sector where fixed price projects are common, more clients are requesting work to be performed on a fixed-price basis to control their costs and shift risk to their contractors. We expect to continue to see increased trends in this type of work awarded by the clients.

Gross Profit

Our Engineering and Construction segment's total gross profit increased 25.3% in 2011, as compared with 2010, and increased 7.5% in 2010, as compared with 2009. Of the overall increase in gross profit for 2011, $14.2 million was attributable to increase revenues, offset by an increase of $10.1 million in direct costs. As a percentage of the Engineering and Construction segment revenue, the Engineering and Construction segment's gross profit increased from 7.4% in 2009 to 7.6% in 2010, and increased to 8.8% in 2011 from 7.6% in 2010. The increase during 2011 is mainly due to management of variable labor costs and improving market conditions for the Company's services.

The increase in total gross profit percentages for 2010, as compared to 2009, is mainly due to cost cutting measures implemented in response to the lower revenues during 2009, which included decreasing our number of employees; therefore, reducing our overhead costs.

Operating Selling, General and Administrative (“SG&A”) Expenses

The decrease in the Engineering and Construction segment's SG&A expense in 2011 from 2010 was due to large write offs of bad debt in 2010. The increase in the Engineering and Construction segment's SG&A expense in 2010 from 2009 was due to increases of $10.0 million in bad debt expense mainly attributable to the SLE and Bigler write offs 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

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

Of the overall increase in the Engineering and Construction segment's operating income for 2011 stated as a percent of revenues, the majority was due to significant increases in our detail design revenues.

Of the overall decrease in the Engineering and Construction segment's operating income for 2010 stated as a percent of revenues, 6.2 percentage points of change was due to increased SG&A expenses for the write off of the SLE and Bigler receivables.

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

Automation Segment:

	Twelve Months Ended December 31,											
	2011				2010				Increase/(Decrease)			
	(dollars in thousands)											
Revenue before eliminations	$62,216				$51,020				$11,196			
Inter-segment eliminations	—				(1,363	)			1,363			
Total revenue	$62,216				$49,657				$12,559			
Detailed revenue												
Fabrication	$36,989		59.5	%	$25,917		52.2	%	$11,072		42.7	%
Non-fabrication	25,227		40.5	%	23,740		47.8	%	1,487		6.3	%
Total revenue	$62,216		100.0	%	$49,657		100.0	%	$12,559		25.3	%
Gross profit	6,084		9.8	%	2,551		5.1	%	3,533		138.5	%
Operating SG&A expense	4,047		6.5	%	4,476		9.0	%	(429	)	(9.6	)%
Operating income (loss)	$2,037		3.3	%	$(1,925	)	(3.9	)%	$3,962		205.8	%

	Twelve Months Ended December 31,											
	2010				2009				Increase/(Decrease)			
	(dollars in thousands)											
Revenue before eliminations	$51,020				$72,418				$(21,398	)		
Inter-segment eliminations	(1,363	)			(96	)			(1,267	)		
Total revenue	$49,657				$72,322				$(22,665	)		
Detailed revenue												
Fabrication	$25,917		52.2	%	$35,792		49.5	%	$(9,875	)	(27.6	)%
Non-fabrication	23,740		47.8	%	36,530		50.5	%	(12,790	)	(35.0	)%
Total revenue	$49,657		100.0	%	$72,322		100.0	%	$(22,665	)	(31.3	)%
Gross profit	2,551		5.1	%	8,703		12.1	%	(6,152	)	(70.7	)%
Operating SG&A expense	4,476		9.0	%	4,135		5.7	%	341		8.2	%
Operating income	$(1,925	)	(3.9	)%	$4,568		6.3	%	$(6,493	)	(142.1	)%

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)

Field Solutions Segment:

	Twelve Months Ended December 31,					
	2011		2010		Increase/(Decrease)	
	(dollars in thousands)					
Revenue before eliminations	$75,144		$95,481		$(20,337)	
Inter-segment eliminations	—		—		—	
Total revenue	$75,144		$95,481		$(20,337)	
Detailed revenue						
Inspection services	$48,551	64.6 %	$72,268	75.7 %	$(23,717)	(32.8)%
Land services	26,593	35.4 %	23,213	24.3 %	3,380	14.6 %
Total revenue	$75,144	100.0 %	$95,481	100.0 %		