ENGLOBAL CORP

FORM 10-K
(Annual Report)

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Address	654 N. SAM HOUSTON PKWY E SUITE 400 HOUSTON, TX 77060-5914
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SIC Code	8711 - Engineering Services
Industry	Construction & Engineering
Sector	Industrials
Fiscal Year	12/31

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, 2007

or

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

For the transition period from _____ to _____

Commission File No. 001-14217

ENGlobal Corporation

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Exchange Act:

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

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

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

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

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

Yes [X] No [ ]

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

[X]

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2007 was $326,924,120 (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 27, 2008 is as follows:

$0.001 Par Value Common Stock 27,063,541 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 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 29, 2008.

ENGlobal Corporation
2007 ANNUAL REPORT ON FORM 10-K

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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) our ability to collect accounts receivable in a timely manner; (ii) our ability to accurately estimate costs and fees on fixed-price contracts; (iii) 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; (iv) 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; (v) the effect of changes in the Company's organization, compensation and benefit plans; (vi) the effect on the Company's competitive position within its market area of the increasing consolidation within its services industries, including the increased competition from larger regional and out-of-state engineering and professional service organizations; (vii) the effect of increases and decreases in oil prices; (viii) the availability of parts from vendors; (ix) our ability to increase or renew our line of credit;
(x) 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; (xi) our ability to hire and retain qualified personnel; (xii) our ability to retain existing customers and get new customers; (xiii) the effect of changes in the business cycle and downturns in local, regional and national economies; (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; and (xvii) the continued strong performance of the energy sector. The Company cautions that the foregoing list of important factors is not exclusive. We are under no duty and have no plans to update any of the forward-looking statements after the date of this Report to conform such statements to actual results.

ITEM 1. BUSINESS

Overview

ENGlobal Corporation (which may be referred to as "ENGlobal," the "Company," "we," "us" or "our"), incorporated in the State of Nevada in June 1994, is a leading provider of engineering and professional services principally to the energy sector. ENGlobal's net revenue from continuous operations has grown from $89.1 million in 2002 to $363.2 million in 2007, a compounded annual growth rate of approximately 32.5%. We have accomplished this growth by expanding our engineering and professional service capabilities and also our geographic presence through internal growth, including new initiatives and to a lesser extent, through a series of strategic acquisitions.

We now have more than 2,443 full-time equivalent employees in 24 offices and 491,800 square feet of office and manufacturing space strategically located in the following cities: Houston, Beaumont, Clear Lake, Freeport, and Midland, Texas; Baton Rouge and Lake Charles, Louisiana; Tulsa, Cleveland and Blackwell, Oklahoma; Broomfield, Colorado; Atlanta, Georgia; and Calgary, Alberta, Canada and San Jose, Costa Rica. ENGlobal closed its Dallas, Texas office in the first quarter of 2007. There was no material reorganization expense associated with that closure.

In September 2007, ENGlobal opened an office in San Jose, Costa Rica to perform computer aided design (CAD) services. ENGlobal Ingenieria EGICR, S.A. was formed through a 50%-50% limited partnership with a CAD firm based in Houston, Texas that had operated an office in Costa Rica for several years.

During the first three quarters of 2007, the Company managed and reported through two business segments: Engineering and Systems. In the fourth quarter of 2007, due to the past and anticipated growth in certain areas of our business and change in leadership during 2007, we reevaluated our reportable segments under Financial Accounting Standards Board Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." As a result, we have elected to realign both management and reporting into four business segments: Engineering, Construction, Automation and Land.

The Engineering Segment

The Engineering segment provides consulting services relating to the development, management and execution of projects requiring professional engineering and related project services. Services provided by the Engineering segment include feasibility studies, engineering, design, procurement and construction management. The Engineering segment provides these services to the upstream, midstream and downstream energy industries and branches of the U.S. military, and in some instances, it delivers its services via in-plant personnel assigned throughout the United States and internationally.

The Construction Segment

The Construction segment provides construction management personnel and services in the areas of inspection, mechanical integrity, vendor and turnaround surveillance, field support, construction, quality assurance and plant asset management. Its customers include pipeline, refining, utility, chemical, petroleum, petrochemical, oil and gas, and power industries throughout the United States. Construction segment personnel are typically assigned to client facilities throughout the United States.

The Automation Segment

The Automation segment provides services related to the design, fabrication, and implementation of process distributed control and analyzer systems, advanced automation, and information technology projects. The Automation segment's customers include members of the domestic and foreign energy related industries. Automation segment personnel assist in on-site commissioning, start-up and training for the Company's specialized systems.

The Land Segment

The Land segment provides land management, right-of-way, environmental compliance, and governmental regulatory compliance services primarily to the pipeline, utility and telecom companies and other owner/operators of infrastructure facilities throughout the United States and Canada.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You can read and copy any materials filed with the SEC at its Public Reference Room at 100 F. Street, N.E., Washington, D.C. 20549. You can obtain information about the operations from the SEC Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website, which contains information we file electronically with the SEC, which can be accessed over the Internet at www.sec.gov.

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.

Business Segments

During the first three quarters of 2007, the Company managed and reported through two business segments: Engineering and Systems. In the fourth quarter of 2007, due to the past and anticipated growth in certain areas of our business and change in leadership during 2007, we reevaluated our reportable segments under Financial Accounting Standards Board Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." As a result, we have elected to realign both management and reporting into four business segments: Engineering, Construction, Automation and Land.

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

	Percentage of Revenue		
Segments	2007	2006	2005
Engineering	61.0%	71.1%	82.8%
Construction	20.2%	11.9%	9.4%
Automation	10.4%	11.5%	7.8%
Land	8.4%	5.5%	--%
	100.0%	100.0%	100.0%

Engineering Segment

	Selected Financial Data		
	2007	2006	2005
	(Amounts in thousands)		
Revenue	$ 221,787	$ 215,306	$ 193,376
Operating profit	$ 28,301	$ 6,195	$ 16,814
Total assets	$ 63,265	$ 57,995	$ 60,047

General

The Engineering segment provides consulting services relating to the development, management and execution of projects requiring professional engineering and related project services. Our Engineering segment offers engineering consulting services primarily to clients in the petroleum refining, petrochemical, pipeline, production and process industries for the development and management of engineering projects throughout the United States. The Engineering segment currently operates through ENGlobal's wholly-owned subsidiary, ENGlobal Engineering, Inc. ("EEI"), and EEI's wholly-owned subsidiary, ENGlobal Technical Services, Inc. ("ETS"). EEI focuses primarily on providing services to downstream petroleum refining, petrochemical and other processing plants, and also to upstream and midstream pipeline companies and gas processing plants. ETS primarily provides Automated Fuel Handling Systems and services to branches of the U.S. military and public sector companies. The Engineering segment derives revenue primarily from cost-plus fees charged for professional and technical services. We also enter into contracts providing for the execution of projects on a fixed-price basis, whereby some or all of the project activities related to engineering, material procurement and construction (EPC) are performed for a fixed-price amount. As a service-based business, the Engineering segment is more labor than capital intensive. Our income primarily results from our ability to generate revenue and collect cash under both cost-plus and fixed-price contracts that is in excess of any cost for employees and benefits, material, equipment and subcontracts, plus our selling, general and administrative (SG&A) expenses.

Our domestic base of energy related clients has generally experienced an economy healthier than the national average, with a high level of spending for both capital and maintenance projects. The highest areas of project activity currently are in the refining, pipeline, petrochemical and alternative energy industries, with the unemployment rate in our market area generally being less than the national average. In addition, our clients are either planning or have begun several multi-billion dollar projects, which are expected to continue through at least 2010. While ENGlobal Corporation is currently participating in a number of these major projects, we perform services on a large number of smaller maintenance and retrofit projects mainly in the United States.

As of December 31, 2007, the Engineering segment had more than one hundred existing blanket service contracts pursuant to which it provides clients either with services on a time-and-materials basis or with services on a fixed-price basis. The Company strives to establish longer term alliance relationships with our clients that can be expected to provide a steadier stream of work. In addition, the Company has found that the outsourcing of its personnel to client facilities provides for a steadier stream of work. Our Engineering segment operates out of offices in Baton Rouge and Lake Charles, Louisiana; Beaumont, Houston, and Freeport, Texas; Tulsa, Oklahoma; and Broomfield, Colorado. In the first quarter of 2007, the Dallas office was closed, the majority of its assets were sold, a major portion of the office lease obligations were assumed by others, and its operations were transferred to other Engineering offices.

Our Engineering segment offers its expertise to a broad range of industrial clients. We participate in projects involving both the modification of existing facilities and engineering design of new facilities. We most often use a blanket services contract that typically provides our clients with EPC project management services on a time-and-materials basis. We also enter into contracts to complete capital projects on a fixed-price basis. The engineering staff has the capability of developing a project from the initial planning stages through detailed design and construction management. The engineering services include:

o conceptual studies;
o project definition;
o cost estimating;
o engineering design;
o environmental compliance;
o material procurement; and
o project management.

The Engineering segment offers a wide range of services from a single source provider.

Competition

Our Engineering segment competes with a large number of 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 scope of work to the Company.

Competition is primarily centered on performance and the ability to provide the engineering, planning and project execution skills 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. Larger projects, especially international work, typically include pricing alternatives designed to shift risk to the service provider, or at least to cause the service provider to share a portion of the risks associated with cost overruns in service delivery. These alternatives include fixed-price, guaranteed maximum price, incentive fee, competitive bidding and other "value based" pricing arrangements.

Construction Segment

	Selected Financial Data		
	2007	2006	2005
	(Amounts in thousands)		
Revenue	$ 73,210	$ 36,128	$ 21,898
Operating profit	$ 7,133	$ 1,579	$ 1,288
Total assets	$ 17,226	$ 11,287	$ 6,536

General

Our Construction segment focuses on energy infrastructure projects in the United States by offering construction management personnel and services in the areas of inspection, mechanical integrity, vendor and turnaround surveillance, field support, construction, quality assurance and plant asset management to clients in the pipeline, refining, utility, chemical, petroleum, petrochemical, oil and gas, and power industries throughout the United States. The Construction segment operates through our wholly-owned subsidiary ENGlobal Construction Resources, Inc. ("ECR"). The Construction segment derives revenue from cost-plus fees charged for professional and technical services. As a service company, we are more labor than capital intensive. Our income primarily results from our ability to generate revenue and collect cash under cost-plus contracts that is in excess of any cost for employees and benefits, material, equipment and subcontracts, plus our selling, general and administrative (SG&A) expenses.

Our Construction segment operates out of offices in Baton Rouge and Lake Charles, Louisiana; Beaumont, Clear Lake, Midland and Freeport, Texas; and Cleveland, Blackwell and Tulsa, Oklahoma.

Competition

Our Construction segment competes with a range of small and midsize inspection and construction management service companies. The principal elements of competition among these types of companies are rates, terms of service and flexibility and reliability of services. The inspection and construction management business is affected by industry pressure on costs, fueled by intense competition for contracts.

Competition is primarily centered on performance and the ability to provide the services in a timely and cost-efficient manner. The technical expertise of our personnel is a key competitive factor. Our goal is to establish key long-term customer relationships.

Automation Segment

	Selected Financial Data		
	2007	2006	2005
	(Amounts in thousands)		
Revenue	$ 37,766	$ 34,888	$ 18,311
Operating profit	$ (58)	$ 579	$ (41)
Total assets	$ 17,468	$ 18,841	$ 6,934

General

The Automation segment provides services related to the design, fabrication, and implementation of process distributed control and analyzer systems, advanced automation, and information technology projects. The Automation 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 and process industries throughout the United States and Canada as well as internationally. The Automation segment currently operates through ENGlobal Systems, Inc. ("ESI") and ENGlobal Automation Group, Inc. ("EAG"), both wholly-owned subsidiaries of ENGlobal, and EAG's wholly owned subsidiary, ENGlobal Canada ULC ("ECAN"). EAG and ECAN focus primarily on providing design and engineering services, while ESI primarily provides fabrication, testing and integration services. The Automation segment derives revenue from both cost-plus fees charged for professional and technical services on a fixed-price basis, whereby some or all of the project activities related to engineering, material procurement and fabrication are performed for a lump sum amount. As a service company, we are more labor than capital intensive. Our income primarily results from our ability to generate revenue and collect cash under both cost-plus and fixed-price contracts that is in excess of any cost for employees and benefits, material, equipment and subcontracts, plus our selling, general and administrative (SG&A) expenses.

Our Automation segment operates out of offices in Baton Rouge, Louisiana; Beaumont and Houston, Texas; Atlanta, Georgia; and Calgary, Alberta.

In January 2006, ESI acquired certain assets of Analyzer Technology International, Inc. ("ATI"), a Houston-based analyzer systems provider of online process analyzer systems, and ATI has relocated its operation to ESI's Houston facility. The addition of ATI has provided ESI with a greater presence in the process analyzer sector, especially for larger downstream opportunities of foreign grassroots projects.

Competition

Our Automation segment competes with a large number of 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.

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.

Land Segment

	Selected Financial Data		
	2007	2006	2005
	(Amounts in thousands)		
Revenue	$ 30,464	$ 16,768	$ -
Operating profit (loss)	$ 2,105	716	$ -
Total assets	$ 15,096	$ 11,540	$ -

General

Our Land segment provides land management, right-of-way, environmental compliance, and governmental regulatory compliance services primarily to the pipeline, utility and telecom companies and other owner/operators of infrastructure facilities throughout the United States and Canada. General population growth and development result in high demand for rights-of-way (pipelines, transmission lines and telecommunication cables). The Land segment operates through the Company's wholly-owned subsidiary, ENGlobal Land, Inc.("ELI"), formerly known as WRC Corporation, and its wholly-owned subsidiary WRC Canada ("WRC Canada"). ELI provides land management, environmental compliance, and governmental regulatory services to the pipeline, utility and telecom companies and other owner/operators of infrastructure facilities. WRC Canada provides land management and inspection services. The Land segment derives revenue from cost-plus fees charged for professional and technical services. As a service company, we are more labor than capital intensive. Our income primarily results from our ability to generate revenue and collect cash under cost-plus contracts that is in excess of any cost for employees and benefits, material, equipment and subcontracts, plus our selling, general and administrative (SG&A) expenses.

Our Land segment operates out of offices in Houston, Texas, Broomfield, Colorado, and Calgary, Alberta, as well as other satellite offices across the United States.

In January 2008, WRC Corporation changed its name to "ENGlobal Land, Inc." to support and to better identify with the ENGlobal brand.

Competition

The Land segment competes with a range of small and midsize firms that provide right-of-way mapping, title assistance, appraisals, landowner negotiations, and eminent domain-condemnation.

Competition is primarily centered on retaining experienced landmen and other qualified professionals. Land and right-of-way specialists must have a thorough understanding of governmental and public regulatory factors. 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 large sums, condemnation, damages, restriction of access, and similar complicating factors. Retaining these qualified, skilled professionals is crucial to the success and growth of our Land segment.

Acquisitions and Sales

We have grown our business over the past several years through both internal initiatives and through strategic mergers and acquisitions. These mergers and acquisitions have allowed us to (i) expand our client base and the range of services that we provide to our clients; and (ii) gain access to new geographic areas. We expect to continue evaluating and assessing acquisition opportunities that will either complement our existing business base or that will provide the Company with additional capabilities or geographical coverage. We believe that strategic acquisitions will enable us to more efficiently serve the technical needs of national and international clients and strengthen our financial performance. The following table lists the businesses we have acquired during the four-year period ended December 31, 2007.

Name/Location/Business Unit	Date Acquired	Primary Services
Engineering Design Group, Inc. Tulsa, OK Operates as ETS, formerly EDG	January 2004	Automated Fuel Handling & Tank Gauging Systems
AmTech Inspection, LLC Midland, TX Operates as a part of ECR	September 2004	Onsite Inspection and Plant Process Safety Mgt
Cleveland Inspection Services, Inc. Cleveland, OK Operates as a Division of ECR	October 2004	Onsite Pipeline Inspection
Instrument Services Company, LLC Tulsa, OK Operates as a part of ECR	November 2004	Onsite Instrument and Electrical Technicians
InfoTech Engineering, LLC Baton Rouge, LA Operates as a Division of EAG	December 2004	Advanced Automation System Design
Analyzer Technology International, Inc. Houston, TX Operates as a part of ESI	January 2006	Process Analyzer Systems
WRC Corporation and WRC Canada Denver, CO Operates as ELI, formerly WRC	May 2006	Integrated Land Management
PEI Investments Beaumont, TX	May 2006	Real Estate
Watco Management, Inc. Clearlake, TX Operates as a Division of ECR	October 2006	Turnaround Asset Management Project Commissioning Construction Management

ENGlobal Corporation transitions acquisitions under the ENGlobal brand name as soon as feasible, given the size and scope of the acquisition, but typically within two years. This strengthens ENGlobal's market position as a diversified supplier of engineering and related services and focuses on the quality of the ENGlobal name. Smaller acquisitions are almost immediately integrated as a division of an existing organization.

Business Strategy

In the past year, ENGlobal has focused considerable attention on realigning its organizational structure and strengthening its leadership team. In the fourth quarter of 2007, ENGlobal decided that it would operate in four, rather than two, business segments. These four segments are: Engineering, Construction, Automation and Land. The Company anticipates that these efforts, together with expansion of our geographical presence, will continue in 2008.

In addition, our objective is to strengthen the Company's position as a leading full-service engineering and professional service provider by enhancing our overall range of capabilities through automation, construction and land services. To achieve this objective, we have developed a strategy comprised of the following key elements:

o Recruit and Retain Qualified Personnel. We believe recruiting and retaining qualified, skilled professionals is crucial to our success and growth. As a result, we have a dedicated recruitment staff focused on recruiting qualified personnel with experience in the energy industry. Improved employee benefits, such as increased 401(k) matching and competitive healthcare offerings, together with various incentive programs, have helped us to retain valued employees.

o Improve Utilization of Resources. We have developed a work-sharing program through the use of an internal virtual private network that gives our staff and our client's access to technical resources located in any of our offices, which allows for higher utilization of human and computer resources. We believe the work-sharing program has reduced employee turnover and provides for a more stable work environment. We are also moving toward standardization of all of our processes and procedures among our offices, which, we believe, will enhance our work-sharing ability and provide our clients with more consistent and higher quality services.

o Pursue Foreign Technical Resources. Our engineering operation has entered into a 50-50 limited partnership with a Houston-based design firm. The venture, ENGlobal Ingenieria EGICR, S.A., was established in San Jose, Costa Rica to provide long-term access to professional engineering and design resources. In order to control our work processes and subsequent quality, we have staffed the Costa Rican office with one of our U.S. managers with substantial foreign work experience. We believe the venture offers our clients low cost, high value engineering, design and drafting services and often allows us to lower our contract bid prices and enhance our competitive position.

o Enhance and Strengthen Our Ability to Perform Engineering, Procurement and Construction Projects. We rely heavily on repeat business and referrals from existing customers, industry members, and other business representatives. One of the Engineering segment's goals is to increase revenue by developing and marketing its ability to perform full service turnkey projects, also called EPC (Engineering, Procurement and Construction Management) projects, while pursuing a cost-plus contracting strategy. The Engineering segment has traditionally been responsible only for the engineering portion of its projects, which usually represents between five to fifteen percent of a project's total installed cost. By performing the procurement and construction management portions of the project on a cost-plus basis, we are able to capture additional proceeds under the project's total installed cost.

o Maintain High-Quality Service. To maintain high-quality service, we focus on being responsive to our customers, working diligently and responsibly, and maintaining safety standards, schedules and budgets. ENGlobal has a quality control and assurance program to maintain standards and procedures for performance and documentation. To enhance these efforts, we have added an officer level position responsible for project auditing and monitoring compliance with these internal project procedures and quality standards.

o Expand and Enhance Technical Capabilities. We believe that it is important to develop and enhance our overall technical capabilities in the markets we serve. To achieve this objective in the area of advanced computer-aided process simulation, design and drafting, we utilize technical software from numerous suppliers. By being vendor neutral, ENGlobal is able to provide high-quality technology and platforms for the design of plant systems such as 3D modeling, process simulation, and other technical applications. We find it beneficial to match the design tools we use with those being utilized by our clients, many of whom are currently utilizing these design platforms.

o Pursue Balanced Growth. We continue to follow a balanced growth strategy for our business, utilizing both external acquisitions as well as internal measures as a means of future growth. Our goal is to achieve roughly 25% top line growth divided between internal and external growth objectives. The internal measures include an active business development program within all of our business segments. Our external growth will likely come from acquisitions and mergers that allow us to (i) offer expanded engineering and professional services to a broad energy complex, (ii) add new technical capabilities that can be marketed to our existing client base, (iii) grow our business geographically, and (iv) capture more of a project's value.

o Increase Name Recognition. We intend to continue to present a more unified position for the Company by building a cohesive image and increasing ENGlobal's name recognition. We have redesigned our website to highlight our four businesses: Engineering, Construction, Automation and Land. Effective January 1, 2008, we will not brand our various legal subsidiary names such as ENGlobal Engineering, Inc., ENGlobal Systems, Inc., but instead focus on one name: ENGlobal. Our new image presents ENGlobal as one company, wherein our four business segments can work together as a team to offer their many capabilities seamlessly, with a continued focus on better serving our clients.

Sales and Marketing

ENGlobal derives revenue primarily from three sources: (1) in-house direct sales, (2) alliance agreements with strategic clients, and (3) referrals from existing customers and industry members. We currently employ 28 full-time professional in-house marketers in our business development department who concentrate primarily on the Company's Engineering and Automation business segments. Our Senior Vice President of Business Development supervises the in-house sales managers who are assigned to industry segments and territories within the United States. Management believes that this method of selling should result in increased account penetration and enhanced customer service, which should, in turn, create and maintain the foundation for long-term customer relationships. In addition, relationships can be nurtured by our geographic advantage of having office locations near our larger clients. 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.

Products and services are also promoted through trade advertising, participation in industry conferences and trade shows, and through on-line Internet communication via our corporate home page at www.englobal.com. The ENGlobal site provides information about our four 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 with a single point of contact for obtaining information on ENGlobal's services.

Our business development department focuses on building long-term relationships with customers and providing our customers and potential clients with engineering solutions and after-the-sale services. Additionally, we seek to capitalize on cross-selling opportunities among our various businesses - Engineering, Construction, Automation, and Land. Sales leads are often jointly developed and pursued by the sales personnel from these various businesses.

ENGlobal develops alliance agreements with clients in order to facilitate repeat business. The Company currently has 19 alliances with 14 customers. These alliance 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 alliance customers are easier to negotiate. Management believes that alliance agreements can serve to stabilize project centered operations such as the engineering and construction industry. Alliances tend to provide a steady and more predictable source of revenue each year. In 2007, ENGlobal's alliance agreements accounted for 73% of the Company's revenue.

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 referrals provide the opportunity for increased profitability because referrals do not involve direct selling, but instead, allows satisfied customers to sell our services and products on our behalf. ENGlobal strives to develop our clients' trust, then benefits by word-of-mouth referrals.

Our acquisition program has provided the benefit of expanding our existing customer base. Management believes that cross-selling among our businesses is an effective way to build client loyalty because cross-selling can clearly solidify a client relationship thereby reducing attrition and increasing the lifetime profitability of each client. The Company also believes that cross-selling can help to ensure a greater predictability of revenue and can be a cost effective way to grow.

Customers

In 2008, the Company will focus substantial attention on improving customer services in order to enhance satisfaction and increase customer retention. Our customer base consists primarily of Fortune 500 companies representing a variety of industries in the United States. While we do not have continuing dependence on any single client or a limited group of clients, one or a few clients may contribute a substantial portion of our revenue in any given year or over a period of several consecutive years due to major engineering projects. We have had success undertaking new projects for prior clients and providing ongoing services to clients following the completion of the projects.

Almost 75% of our revenue is generated through sources such as in-plant staffing and alliance relationships that we consider longer-term in nature and that are not typically limited to one project. For example, EEI 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.

A major long-term trend among our clients and their industry counterparts has been toward outsourcing of engineering services, and more recently, sole-sourcing. This trend has fostered the development of ongoing, longer-term alliance arrangements with clients, rather than one-time limited engagements. These arrangements vary in scope, duration and degree of commitment. While there is typically no guarantee of work that will result from these alliance agreements, often they form the basis for a longer-term relationship with our clients. Despite their variety, we believe that these partnering relationships have a stabilizing influence on our service revenue. At December 31, 2007, we maintained some form of partnering or alliance arrangement with 14 major oil and chemical companies. Alliance engagements may provide for:

o a minimum number of work man-hours over a specified period;
o the provision of at least a designated percentage of the client's requirements;
o the designation of the Company as the client's sole source of engineering at specific locations; or
o 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 57% of our total revenue for 2007, 62% of total revenue for 2006, and 77% of total revenue for 2005. 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 2007 were Motiva, ConocoPhillips and ExxonMobil. Even though we frequently receive work from repeat clients, our client list may vary significantly from year to year. Our potential revenue of all segments are dependent on continuing relationships with our customers.

Engineering Segment:

In the Engineering segment, our ten largest customers vary from one period to the next. These customers accounted for 74% of our total revenue for 2007, 83% of total revenue for 2006, and 87% of total revenue for 2005. Our top three clients in 2007 were Motiva, ConocoPhillips and ExxonMobil.

Though the Engineering 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 projects.

Construction Segment:

In the Construction segment, our ten largest customers vary from one period to the next. Our ten largest customers accounted for 82% of our total revenue for 2007, 75% of total revenue for 2006, and 71% of total revenue for 2005. Our top three clients in 2007 were Spectra Energy, Gulf South Pipeline and Southern Natural Gas.

The revenue for the Construction segment is generated through sources such as in-plant staffing and alliance relationships that we consider longer-term in nature and that are not typically limited to one project.

Automation Segment:

In the Automation segment, our ten largest customers, who also vary from one period to the next, accounted for 73% of our total revenue for 2007, 62% of total revenue for 2006, and 74% of total revenue for 2005. Our top three clients in 2007 were E.I. Dupont, Yanbu National Petrochemical and Yokogawa Corp of America. Total foreign customers accounted for 22% of our Automation segment revenue for both 2007 and 2006 and less than 1% in 2005. The increase in revenue from foreign customers is the result of the acquisition of ATI in 2006, which allowed for the expansion of the analytical division that provides online process analyzer systems. During 2007, 3% of our revenue came from our Canadian operations compared to 1% in 2006.

Though the Automation segment frequently receives work from repeat clients, its client list may vary significantly from year to year. Factors affecting our analytical systems business that are beyond our control include: political instability or armed conflict, the level of customer demand, the willingness of clients to allow for and make milestone progress payments, and the timeliness of clients' payments within terms of contracts.

Land Segment:

In the Land segment, our ten largest customers vary from one period to the next. These customers accounted for 70% of our total revenue for 2007 and 83% of total revenue for 2006. Our top three clients in 2007 were Spectra Energy, Enterprise Products and Ozark Gas Transmission.

Contracts

We generally enter into two principal types of contracts with our clients:
time-and-materials contracts and fixed-price contracts. Our mix of net revenue between time-and-materials and fixed-price 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.

	Revenue in thousands			
	Time-and-material	%	Fixed-price	%
Engineering	$ 204,600		$ 17,187	
Construction	73,210		-	
Automation	15,421		22,345	
Land	30,464		-	
Total company	$ 323,695	89.1	$ 39,532	10.9

o Time-and-Materials. Under our time-and-materials contracts, we are paid for labor at either negotiated hourly billing rates or we are reimbursed for allowable hourly rates and for 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 sub-contractor services through with no profit. Profitability on these contracts is driven by billable headcount, the amount of non-labor related services, and cost control. Some of these contracts may have upper limits, referred to as "not-to-exceed." If our scope is not defined under a "not-to-exceed" agreement 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 contract ceiling or are not allowable, we will not be able to obtain reimbursement for any excess cost. Further, the continuation of each contract partially depends upon the customer's discretionary periodic assessment of our performance on that contract.

o Fixed-Price. Under a fixed-price contract, sometimes referred to as "guaranteed maximum", we provide the customer a total project for an agreed-upon price, subject to project circumstances and changes in scope. Fixed-price projects vary in scope, including some engineering activities and related services, and procurement of material and construction responsibility. Fixed-price contracts carry certain inherent risks, including risks of losses from underestimating costs, delays in project completion, problems with new technologies, the economy, as it may relate to labor shortages and inflation of equipment and material costs, natural disasters, and other changes that may occur over the contract period. Another risk includes our ability to secure written change orders prior to commencing work on such orders, which may prevent our getting paid for work performed. Consequently, the profitability of fixed-price contracts may vary substantially, and we plan to limit the size and scope of EPC fixed-price contracts that we enter into in the future due to significant losses on two fixed-price contracts during 2006.

Backlog

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

At December 31, 2007, our backlog was $289.2 million compared to an estimated $192.0 million at December 31, 2006. We expect a majority of the $289.2 million in backlog to be completed during 2008.

The backlog at December 31, 2007 consists of $273.1 million with commercial customers and $16.1 million with the United States government. Backlog on the federal programs includes only the portion of the contract award that has been funded. The backlog for each of our segments at December 31, 2007 is as follows:

Engineering segment	$ 150.8 million
Construction segment	88.2 million
Automation segment	19.6 million
Land segment	30.6 million

Backlog includes gross revenue under two types of contracts: (1) contracts for which work authorizations have been received on a fixed-price basis and 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.

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 engineering systems, we provide worldwide start-up and commissioning services. We also provide the manufacturers' limited warranty coverage for products we re-sell.

Dependence Upon Suppliers

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

For example, all of the product components used by our Automation segment are fabricated using components and materials that are available from numerous domestic suppliers. There are approximately five principal suppliers of these components, each of whom can be replaced by an equally viable competitor. No one manufacturer or vendor provides products that account for more than 6% of our revenue. Thus, we anticipate little or no difficulty in obtaining components in sufficient quantities and in a timely manner to support our manufacturing and assembly operations. Units produced through the Automation segment are normally not produced for inventory and component parts; rather, they are typically purchased on an as-needed basis.

Despite the foregoing, some of our subsidiaries rely 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 subsidiary or one of its suppliers terminates a long-standing supply relationship, 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.

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. The U.S. Patent and Trademark Office registered our trademark application for the use of "ENGlobal"(R) with our products in September 2004 and the Company claims common law trademark rights for "ENGlobal"TM with our services. We have pending trademark applications for "Integrated Rack"TM and "Engineered for Growth,"TM respectively. ENGlobal claims common law trademark rights for "Global Thinking... Global Solutions,"TM "CARES
- Communicating Appropriate Responses in Emergency Situations,"TM "Flare-Mon"TM and "Purchased Data."TM

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

The Company 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 as established by the Occupational Safety and Health Administration. The Company and members of its 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. 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, 2007, the Company and its subsidiaries employed 2,443 individuals. Of these employees, 1,024 were employed in engineering and related positions; 719 were employed as inspectors; 358 were employed as project support staff; 237 were employed in technical production positions; 77 were employed in administration, finance and management information systems and 28 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.

Benefit Plans

The Company sponsors a 401(k) profit sharing plan for its employees. The Company makes mandatory matching contributions equal to 50% of employee contributions up to 6% of employee compensation for regular employees. All other employees will be matched at 33.33% of employee contribution up to 6% of compensation, as defined by the plan. The Company, as determined by the Board of Directors, may make other discretionary contributions. The employees may elect to make contributions pursuant to a salary reduction agreement upon meeting age and length-of-service requirements. The Company made contributions of approximately $2,147,000, $1,310,000, and $401,000, respectively, for the years ended December 31, 2007, 2006, and 2005.

Stock Compensation

The Company has an incentive plan that provides for the issuance of options to acquire up to 3,250,000 shares of common stock. The incentive plan ("Option Plan") provides for grants of non-statutory options, incentive stock options, restricted stock awards and stock appreciation rights. All stock option grants are for a ten-year term. Stock options issued to executives and management generally vest over a four-year period; one-fifth at grant date and one-fifth at December 31 of each year until they are fully vested. Details of the Company's stock compensation are included in Footnote 11 to the financial statements.

Amount of Compensation Expense	2007 Grants	2006 Grants	Pre-2006 Grants	Total Compensation
($ in thousands)				
2006	$ --	$1,838	$ 338	$2,176
2007	529	758	152	1,439
2008	529	306	120	955
2009	--	305	--	305
	$1,058	$3,207	$ 610	$4,875

No compensation cost was recognized for grants under the Option Plan prior to 2006 because the exercise price of the options granted to employees equaled or exceeded the market price of the stock on the date of the grant.

Geographic Areas

In 2005, the Company formed ENGlobal Canada ULC, located in Calgary, Alberta to expand our Automation segment into Canada. Then in 2006, the acquisition of WRC Corporation brought along WRC Canada to expand our Land segment into Canada. While this gives us opportunities for expansion, our foreign bases are small in comparison to the Company as a whole.

	2007	2006	2005
	(dollars in thousands)		
US revenue	$ 360,309	$ 299,333	$ 233,496
Canadian(1) revenue	2,918	3,757	89
Total revenue	$ 363,227	$ 303,090	$ 233,585

1 Stated in U.S. Dollars for consolidation purposes

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

	2007	2006	2005
	(dollars in thousands)		
US PPE	$ 6,378	$ 8,642	$ 6,758
Canadian(1) PPE	94	83	103
Total PPE	$ 6,472	$ 8,725	$ 6,861

1 Stated in U.S. Dollars for consolidation purposes

The Company does not own real property in Canada. There is a net loss carry-forward related to ENGlobal Canada of approximately $1.3 million which the Company may utilize through 2017.

ITEM 1A. RISK FACTORS

Set forth below and elsewhere in this Report and in other documents 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.

The failure to attract and retain key professional personnel could adversely affect the Company.
Our success depends on attracting and retaining qualified personnel in a competitive environment. We are dependent upon our ability to attract and retain highly qualified managerial, technical and business development personnel. Competition for key personnel is intense. We cannot be certain that we will retain our key managerial, technical and business development personnel or that we will 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 future revenue depends on our ability to consistently bid and win new contracts and to maintain and renew existing contracts. Our failure to effectively obtain future contracts could adversely affect our profitability.
Our future revenue and overall results of operations require us to successfully bid on new contracts and renew existing contracts. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which is affected by a number of factors, such as market conditions, financing arrangements and required governmental approvals. For example, a client may require us to provide a bond or letter of credit to protect the client should we fail to perform under the terms of the contract. If negative market conditions arise, or if we fail to secure adequate financial arrangements or the required governmental approval, we may not be able to pursue particular projects, which could adversely affect our profitability.

If we are not able to successfully manage our growth strategy, our business and results of operations may be adversely affected.
We have grown rapidly over the last several years. Our growth presents numerous managerial, administrative, operational and other challenges. Our ability to manage the growth of our operations will require us to continue to improve our management information systems and maintain discipline in our internal systems and controls. Industry trends and our ability to manage and measure project performance will require us to strengthen our internal project and cost control systems within operations that have traditionally operated in a cost-plus environment. In addition, our growth will increase our need to attract, develop, motivate and retain both our management and professional employees. The inability of our management to effectively manage our growth or the inability of our employees to achieve anticipated performance could have a material adverse effect on our business.

If we are not able to successfully manage internal growth initiatives, our business and results of operations may be adversely affected.
Our growth strategy is to use our technical expertise in conjunction with industry trends. To support this strategy, the Company may elect to fund internal growth initiatives targeted at markets that the Company believes may have significant potential needs for the Company's services. The downside risks are that such initiatives could have a negative effect on current earnings until they reach critical mass, that industry trends have been misread or delayed or that the Company is unable to successfully execute on these initiatives. In these cases, continued funding could have a negative impact on long term earnings.

Our business and operating results could be adversely affected by our inability to accurately estimate the overall risks, revenue or costs on a contract.
We generally enter into two principal types of contracts with our clients:
time-and-materials contracts and fixed-price contracts. Under our fixed-price contracts, we receive a fixed-price irrespective of the actual costs we incur and, consequently, we are exposed to a number of risks. These risks include underestimation of costs, problems with new technologies, unforeseen expenditures or difficulties, delays beyond our control and economic and other changes that may occur during the contract period. Our ability to secure change orders on scope changes and our ability to invoice for such changes poses an additional risk. In 2006, we suffered significant losses as a result of two fixed-price contracts. In fiscal 2007, approximately 10.9% of our net revenue was derived from fixed-price contracts.

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

Revenue recognition for a contract requires judgment relative to assessing the contract's estimated risks, revenue and costs, and technical issues. Due to the size and nature of many of our contracts, the estimation of overall risk, revenue and cost at completion is complicated and subject to many variables. Changes in underlying assumptions, circumstances or estimates may also adversely affect future period financial performance. This is a major risk factor that could materially impact our operating results.

Economic downturns could have a negative impact on our businesses.
Demand for the services offered by us has been and is expected to continue to be, subject to significant fluctuations due to a variety of factors beyond our control, including demand for engineering services in the petroleum refining, petroleum chemical and pipeline industries and in other industries that we provide services to. During economic downturns in these industries, our customers' need to engage us may decline significantly. We cannot be certain that economic or political conditions will be generally favorable or that there will not be significant fluctuations adversely affecting our industry as a whole or key markets targeted by us.

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 will 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.

Additional acquisitions may adversely affect our ability to manage our business.
Acquisitions have contributed to our growth in the past and we plan to continue making acquisitions in the future 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 subject acquisitions 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. We may not successfully integrate future acquisitions. Any acquisition may require substantial attention from our management, which may limit the amount of time that management can devote to day-to-day operations. Our inability to find additional attractive acquisition candidates or to effectively manage the integration of any businesses acquired in the future could adversely affect our ability to grow profitably or at all.

Our indebtedness could limit our ability to finance future operations or engage in other business activities.
As of December 31, 2007, we had $27.8 million of total outstanding indebtedness against our revolving line of credit currently limited to $50 million. Significant factors that could increase our indebtedness and/or limit our ability to finance future operations include:

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

Although we are in compliance with all current credit facility covenants, our indebtedness could limit our ability to finance future operations or engage in other business activities.

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. Financial difficulties or business failure experienced by one or more of our major customers could have a material adverse affect on both our ability to collect receivables and our results of operations.

We are engaged in highly competitive businesses and must typically bid against competitors to obtain engineering and service contracts.
We are engaged in highly competitive businesses in which customer contracts are typically awarded through competitive bidding processes. We compete with other general and specialty contractors, both foreign and domestic, including large international contractors and small local contractors. Some competitors have greater financial and other resources than we do, which, in some instances, gives them a competitive advantage over us.

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 2007, approximately 11% of our revenue was from Motiva, approximately 10% of our revenue was from ConocoPhillips and another 9% were from ExxonMobil. As our backlog frequently reflects multiple projects for individual clients, one major customer may comprise a significant percentage of our backlog at any point in time. Because these significant customers generally contract with us for specific projects, we may lose them in other years as their projects with us are completed. If we do not 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. Additionally, we have long-standing relationships with many of our significant customers. Our contracts with these customers, however, are on a project-by-project basis and the customers may unilaterally reduce or discontinue their purchases at any time. The loss of business from any one of such customers could have a material adverse effect on our business or results of operations.

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, 2007, our backlog was approximately $289.2 million. We cannot assure investors that the revenue projected in our backlog will be realized or, if realized, will result in profits. Projects 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 may 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.

If the operating result of any segment is adversely affected, an impairment of goodwill could result in a write down.
Based on factors and circumstances impacting ENGlobal and the business climate in which it operates, the Company may determine that it is necessary to re-evaluate the carrying value of its goodwill by conducting an impairment test in accordance with Statement on Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, ("SFAS No. 142"). The Company has assigned goodwill to its segments based on estimates of the relative fair value of each segment. If changes in the industry, market conditions, or government regulation negatively impact any of the Company's segments resulting in lower operating income, if assets are harmed, if anticipated synergies or cost savings are not realized with newly acquired entities, or if any circumstance occurs which results in the fair value of any segment declining below its carrying value, an impairment to goodwill would be created. In accordance with SFAS No. 142, the Company would be required to write down the carrying value of goodwill. In 2007, the Company determined that goodwill within the Automation segment was impaired in the amount of $432,000.

A small number of stockholders own the majority of our outstanding common stock, thus limiting the extent to which other stockholders can affect decisions subject to stockholder vote.
A small number of stockholders own the majority of our outstanding common stock, thus limiting the extent to which other stockholders can effect decisions subject to stockholder vote. As of December 31, 2007, ENGlobal's directors and

executive officers beneficially owned approximately 33.8% of our outstanding common stock and our principal stockholders beneficially owned approximately 22.9% of our outstanding common stock. Collectively these stockholders beneficially own approximately 56.7% of our outstanding common stock and are thus able to affect the outcome of stockholder votes, including votes concerning the adoption or amendment of provisions in our Articles of Incorporation or bylaws and the approval of mergers and other significant corporate transactions. The existence of these levels of ownership concentrated in a few stockholders makes it unlikely that any other holder of common stock will be able to affect the management or direction of the Company. These factors may also have the effect of delaying or preventing a change in management or voting control of the Company.

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

Our Board of Directors may authorize future sales of ENGlobal common stock, which could result in a decrease in value to existing stockholders of the shares they hold.
Our Articles of Incorporation authorize our board of directors to issue up to an additional 47,295,857 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 options as incentives under our 1998 Incentive Option Plan or under a new 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.

Force majeure events such as natural disasters have negatively impacted and could further negatively impact the economy and the industries we service, which may affect our financial condition, results of operations and cash flows.
Force majeure events such as Hurricanes Katrina and Rita that affected the Gulf Coast in August and September of 2005 could negatively impact the economies in which we operate. For example, these two hurricanes 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 such a natural disaster even though our contracts may contain force majeure clauses. If we are not able to react quickly and/or negotiate contractual relief under a force majeure event, our operations may be affected significantly, which would have a negative impact on our financial condition, results of operations and cash flows.

Our dependence on subcontractors and equipment manufacturers could adversely affect us.
We rely on third-party subcontractors as well as third-party suppliers and manufacturers to complete our projects. To the extent that we cannot engage subcontractors or acquire supplies or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount we are required to pay for these goods and services exceeds the amount we have estimated in bidding for fixed-price or cost-plus contracts, we could experience losses in the performance of these contracts. In addition, if a subcontractor or supplier is unable to deliver its services or materials according to the negotiated 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.

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 damage. We are intensely focused on maintaining a safe environment and reducing the risk of accidents. 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.

Our growth strategy requires that we increase the size of our workforce. While we normally target experienced personnel for employment, 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.

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

Fixed-price contract prices are established based largely upon estimates and assumptions relating to project scope and specifications, personnel and material needs. These estimates and assumptions may be inaccurate or conditions may change due to factors out of our control, resulting in cost overruns, which we may be required to absorb and that could have a material adverse effect on our business, financial condition and results of our operations. In addition, our profits from these contracts could decrease and we could experience losses if we incur difficulties in performing the contracts or are unable to secure fixed-pricing commitments from our manufacturers, suppliers and subcontractors at the time we enter into fixed-price contracts with our customers. In 2006, we suffered significant losses as a result of two fixed-price contracts.

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

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

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

A failure to obtain adequate compensation for these matters could require us to record in the current period 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. We cannot assure you that we will be successful in obtaining, through negotiation, arbitration, litigation or otherwise, approved change orders in an amount adequate to compensate us for our additional 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, which could have a significant and adverse effect on our business and reputation. We may be exposed to potential risks resulting from new requirements that we evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act.

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 identified material weaknesses in our internal controls, which 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Facilities

We lease space in 24 buildings in the U.S. and Canada totaling approximately 491,800 square feet. The leases have remaining terms ranging from monthly to five years and are on terms that we consider commercially reasonable. ENGlobal has no major encumbrances related to these properties. A discussion of the locations of the various segments is included in Item 7. On May 26, 2006, the Company entered into an exclusive agreement with a third-party, national real estate firm for tenant representation services that covers most of our facilities.

Our principal office locations are in Houston and Beaumont, Texas; and Tulsa, Oklahoma. We have other offices in Clear Lake, Freeport, and Midland, Texas; Baton Rouge and Lake Charles, Louisiana; Cleveland and Blackwell, Oklahoma; Broomfield, Colorado; Atlanta, Georgia; and Calgary, Alberta Canada. Approximately 397,100 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 two shop facilities. One facility is in Houston, Texas with approximately 62,600 square feet of space and a second facility is in Beaumont, Texas with approximately 30,000 square feet of space.

On May 25, 2006, the Company, through its wholly-owned subsidiary ENGlobal Corporate Services, Inc., purchased a one-third partnership interest in PEI Investments, A Texas Joint Venture ("PEI"), from Michael L. Burrow, the Company's then President and CEO, and another one-third interest from a stockholder who owns less than 1% of the Company's common stock. The partnership interests were purchased for a total of $69,000. The remaining one-third interest was already held by the Company through its wholly-owned subsidiary EEI. PEI owns the land on which our Beaumont, Texas office building, destroyed by Hurricane Rita in September 2005, was located. The remains of the building were razed in July 2006. In September 2006, the Company acquired approximately 1.2 acres immediately adjacent to the former facility and has recently signed an agreement for a third party developer to construct a new 50,000 square foot facility using both parcels of land, and lease this new facility to the Company.

On March 2, 2007, the Company, through its wholly-owned subsidiary, ENGlobal Automation Group, Inc. ("EAG"), entered into a 39-month lease agreement for approximately 4,500 square feet of office space in Alpharetta, Georgia, a suburb of Atlanta.

On June 28, 2007, the Company, through its wholly-owned subsidiary, RPM Engineering, Inc. ("RPM"), sold the Company's property located in Baton Rouge, Louisiana. The purchase price was approximately $1.9 million with 20% of the purchase price being paid at closing and the balance self-financed for a period of 60 months, amortized over 180 months, payable in equal monthly installments and one irregular installment consisting of the interest and principal due at the end of the 60 months. The initial interest rate is 8.5% based on an agreed rate of NY prime plus .25%. The financed portion of the purchase price is secured by a first mortgage on the property. The Company's basis in the property, together with the building and all improvements, was approximately $1.4 million. The Company has leased approximately 31,900 square feet of space in two separate facilities to house its EEI and EAG operations in Baton Rouge.

ITEM 3. LEGAL PROCEEDINGS

From time to time, one or more of ENGlobal Corporation's individual subsidiary business entities are 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, and 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 reserved for, or are covered by insurance, such that, if determined adversely to those entities, individually or in the aggregate, they would not have a material adverse effect on our results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders during the quarter ended December 31, 2007. However, on June 14, 2007, the Company held its Annual Meeting of Stockholders, the summary results of which are incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 18, 2007.

On June 14, 2007, the Company's stockholders elected the following four persons as directors, each to serve until the next Annual Meeting of Stockholders or until his successor is elected or appointed: William A. Coskey, P.E., David W. Gent, P.E., Randall B. Hale, and David C. Roussel. The Company's stockholders also voted to approve an amendment to the Company's 1998 Incentive Plan to increase the number of shares reserved for issuance under the Plan from 2,650,000 to 3,250,000.

The number of shares voted, and withheld, with respect to each director was as follows:

Election of Directors	For	Withheld
William A. Coskey, P.E.	23,714,112	561,405
David W. Gent, P.E.	23,642,251	633,266
Randall B. Hale	23,685,669	589,848
David C. Roussel	23,758,392	517,125

The number of shares voted with respect to the approval of an amendment to the Company's 1998 Incentive Plan to increase the number of shares reserved for issuance under the Plan from 2,650,000 to 3,250,000 was as follows:

For	Against	Abstain
12,175,988	5,638,871	36,923

PART II

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

Market Information and Holders

The Company's common stock has been quoted on the NASDAQ Global Stock Market (NASDAQ) since December 18, 2007, and is traded under the symbol "ENG". From June 16, 1998 to December 18, 2007, the Company's stock was traded on the American Stock Exchange. Newspaper 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			
	2007		2006	
	High	Low	High	Low
First quarter	$ 7.18	$ 5.05	$ 14.61	$ 9.14
Second quarter	12.73	5.66	14.70	6.91
Third quarter	12.90	8.87	8.88	5.71
Fourth quarter	14.81	9.78	8.15	5.92

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

As of December 31, 2007, approximately 258 stockholders of record held the Company's common stock. We do not have current information regarding the number of holders of beneficial interest holding our common stock.

A new class of capital stock of the Company, consisting of 2,000,000 shares of Preferred Stock, par value $0.001 per share (the "Preferred Stock") was approved by the Company's stockholders at its June 2006 meeting. 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. The designations, preferences, limitations, restrictions and rights of any series of Preferred Stock designated by the Board of Directors will be set forth in an amendment to the Amended and Restated Articles of Incorporation ("Amended Articles") filed in accordance with Nevada law.

The Preferred Stock is referred to as a "blank check" because the Board of Directors, in its discretion, will be authorized to provide for the issuance of all or any shares of the stock in one or more classes or series, specifying the terms of the shares, subject to the limitations of Nevada law. The Board of Directors would make a determination as to whether to approve the terms and issuance of any shares of Preferred Stock based on its judgment as to the best interests of the Company and its stockholders.

The reason for authorizing blank check Preferred Stock is to provide the Company with the flexibility in connection with its future growth. Although the Company presently has no intentions of issuing shares of Preferred Stock, opportunities may arise that require the Board to act quickly, such as businesses becoming available for acquisition or favorable market conditions for the sale of a particular type of Preferred Stock. The Board believes that the authorization to issue Preferred Stock is advisable in order to enhance the Company's ability to respond to these and similar opportunities.

Performance Graph

The Company's common stock has been quoted on the NASDAQ Global Stock Market (NASDAQ) since December 18, 2007. From June 16, 1998 to December 18, 2007, the Company's stock was traded on the American Stock Exchange. Accordingly, the performance graph for fiscal year 2007 includes data from both stock exchanges.

The following graph compares the percentage change in (i) the cumulative total stockholder return on the Company's Common Stock for the five-year period ended December 31, 2007 with (ii) the cumulative total return on (a) the S&P SmallCap 600 Index, (b) the NASDAQ Market Index (US), (c) self-constructed peer group, consisting of the following companies: Fermanite Corporation (formerly Xanser Corporation), Michael Baker Corporation, Matrix Service Company, Tetra Tech, Inc., Willbros Group, and VSE Corporation, and (d) the American Stock Exchange (U.S. Index).

The comparison assumes (i) an investment of $100 on December 31, 2002 in each of the foregoing indices and (ii) reinvestment of dividends, if any. In December 2007, the Company listed its common stock on the NASDAQ Global Stock Market and voluntarily delisted from the American Stock Exchange. Accordingly, the Company has added the NASDAQ Global Stock Market (U.S. index) to its performance graph in order to enable a comparison to equity securities trading on the same exchange as the Company.

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

COMPARISON OF 5-YEAR CUMULATIVE TOTAL
AMONG ENGLOBAL, S&P SMALLCAP 600 INDEX,
NASDAQ MARKET INDEX (U.S.) AND PEER GROUP INDEX

[GRAPHIC ON FILE]

ASSUMES $100 INVESTED ON DECEMBER 31, 2002
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING DECEMBER 31, 2007

	2002	2003	2004	2005	2006	2007
ENGLOBAL CORP.	100.00	165.55	260.50	705.88	540.34	954.62
PEER GROUP INDEX	100.00	193.57	170.23	159.55	191.49	303.90
S&P SMALLCAP 600	100.00	138.79	170.22	183.30	211.01	210.38
AMEX MARKET INDEX	100.00	136.11	155.86	171.89	192.45	216.06
NASDAQ MARKET INDEX (U.S.)	100.00	152.01	165.75	171.72	192.65	211.26

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 Graph will not be incorporated by reference into any of those prior filings, nor will such report or graph 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 only equity compensation plan as of December 31, 2007. See Note 11 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	1,306,500	(1)	$6.26	622,494

At the June 14, 2007, Annual Meeting of Stockholders, the Company's stockholders voted to approve an amendment to the Company's 1998 Incentive Plan to increase the number of shares reserved for issuance under the plan from 2,650,000 to 3,250,000.

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 Comerica Bank preclude us from paying any dividends on our common stock while any debt under those agreements is outstanding. The payment of dividends in the future will depend on numerous factors, including the Company's earnings, capital requirements, and operating and financial position and on general business conditions.

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(1) Includes options issued through our 1998 Incentive Plan. For a brief description of the material features of the Plan, see Note 11 of the Notes to the Consolidated Financial Statements. Some of these options, also granted through the 1998 Incentive Plan, were options granted as replacement options for outstanding Petrocon incentive options pursuant to the terms of the December 2001 Merger Agreement with Petrocon.

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, 2007, 2006, and 2005 have been derived from the audited financial statements appearing elsewhere in this document. The data as of December 31, 2004 and 2003 and for the years ended December 31, 2004 and 2003 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,				
	2007	2006	2005	2004	2003
	(in thousands, except per share amounts)				
Statement of Operations					
Revenue					
Engineering	$ 221,787	$ 215,306	$ 193,376	$ 127,299	$ 105,099
Construction	73,210	36,128	21,898	8,046	4,606
Automation	37,766	34,888	18,311	13,543	14,014
Land	30,464	16,768	--	--	--
Total revenue	363,227	303,090	233,585	148,888	123,719
Costs and expenses					
Engineering	181,821	199,645	169,773	112,389	90,712
Construction	63,486	32,403	19,483	7,110	4,192
Automation	34,382	30,400	16,056	11,418	11,842
Land	25,921	14,378	--	--	--
Selling, general and administrative	34,774	29,884	19,689	13,479	12,439
Total costs and expenses	340,384	306,710	225,001	144,396	119,185
Operating income	22,843	(3,620)	8,584	4,492	4,534
Interest income (expense), net	(2,514)	(1,312)	(800)	(590)	(784)
Other income (expense), net	345	652	116	118	(355)
Foreign currency gain (loss)	(1)	(19)	(2)	--	--
Income from continuing operations before provision for income taxes	20,673	(4,299)	7,898	4,020	3,395
Provision for income taxes	8,209	(813)	3,116	1,656	1,110
Income from operations	12,464	(3,486)	4,782	2,364	2,285
Income (loss) from discontinued operations, net of taxes	--	--	--	--	(154)
Income (loss) from disposal of discontinued operations	--	--	--	--	26
Net income	$ 12,464	$ (3,486)	$ 4,782	$ 2,364	$ 2,157

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands, except per share amounts)				
Per Share Data					
Basic earnings (loss) per share					
Continuing operations	$ 0.46	$ (0.13)	$ 0.20	$ 0.10	$ 0.09
Discontinued operations	--	--	--	--	--
Net income (loss) per share	$ 0.46	$ (0.13)	$ 0.20	$ 0.10	$ 0.09
Weighted average common shares outstanding - basic (000's)	26,916	26,538	24,300	23,455	23,301
Diluted earnings (loss) per share					
Continuing operations	$ 0.45	$ (0.13)	$ 0.19	$ 0.10	$ 0.09
Discontinued operations	--	--	--	--	--
Net income (loss) per share	$ 0.45	$ (0.13)	$ 0.19	$ 0.10	$ 0.09
Weighted average common shares outstanding - diluted (000's)	27,435	26,538	25,250	23,786	23,734
Cash Flow Data					
Operating activities, net	$ (1,980)	$ (8,953)	$ (920)	$ (2,391)	$ 6,557
Investing activities, net	(1,707)	(9,330)	(2,418)	(1,811)	(471)
Financing activities, net	3,167	19,553	3,493	4,170	(6,122)
Exchange rate changes	25	(26)	(4)	--	--
Net change in cash and cash equivalents	$ (495)	$ 1,244	$ 151	$ (32)	$ (36)
Balance Sheet Data					
Working capital	$ 42,915	$ 35,187	$ 21,825	$ 14,503	$ 6,505
Property and equipment, net	$ 6,472	$ 8,725	$ 6,861	$ 5,262	$ 4,302
Total assets	$ 119,590	$ 106,227	$ 75,936	$ 57,261	$ 42,530
Long-term debt, net of current portion	$ 29,318	$ 27,162	$ 5,228	$ 15,585	$ 7,506
Long-term capital leases, net of current portion	$ --	$ --	$ --	$ --	$ 12
Stockholders' equity	$ 55,797	$ 40,862	$ 39,864	$ 20,051	$ 18,175

Material Events and Uncertainties

The Company experienced events in 2007 and 2006 that had a material adverse effect on net income from operations. In 2007, the Company was notified by its client, South Louisiana Ethanol ("SLE"), to stop work on a large project due to difficulties it was having in obtaining permanent financing. Also in 2007, price and labor increases on materials contributed to the loss reported for the Automation segment. In 2006, the Company incurred losses on two large EPC contracts, which caused the overall loss reported for that year. Details of these losses are more fully explained in Item 7 and throughout this Annual Report on Form 10-K.

The Company's involvement with the 2007 SLE project resulted from the Company's efforts to diversify its client base. Historically, the Company has performed large projects with Fortune 500 Companies, which generally have good cash flow and established credit. The SLE project involved a smaller developer that planned to retrofit a 20-year old ethanol plant. Due to a number of factors, including, among others, increased corn prices and declining ethanol prices, SLE has not yet secured permanent financing for the project.

Current Remediation Issues

The Company has resolved claims related to the two fixed-price EPC projects that caused losses in 2006. On March 5, 2008, ENGlobal announced that it had successfully reached settlements with the two clients, totaling approximately $2.0 million in excess of what had previously been reserved.

The Company is currently assessing its strategic alternatives with respect to **SLE.**

Efforts to Mitigate Losses Currently

The Company has stopped work on the SLE project, and is providing this client with introductions to third parties that could potentially result in SLE obtaining permanent financing for the project, securing equity partners for the project, or selling the uncompleted facility.

Project controls is reviewing projects that may be experiencing degradations on margins to determine methods for protecting current margins.

Prevention of Future Losses

The Company will examine not only the economics of development projects in the future, but it will also examine the creditworthiness of the developer clients. Due to the current tight credit market, even economically sound projects may face difficulties in acquiring permanent financing. The Company has placed controls on projects estimated at over $5 million and project managers are required to provide updates at least quarterly. In addition, the Company's project control team is implementing more oversight on large projects to identify problems that may degrade the project margins earlier in the project's life. Also, project managers are becoming more involved in collecting receivables before they become collections issues.

The Company believes the management of enterprise risks is an integral part of our strategy and our day-to-day operations. Our Enterprise Risk Management Committee, led by the Vice President - Legal Affairs and Contracts, was established to ensure that risks are timely identified, adequately understood, properly assessed and effectively responded to by responsible employees at all levels within the Company. This enables us to better achieve our short-term and long-term goals and fulfill our obligations to our employees and clients.

The Company is in the process of changing the way it bids fixed-price contracts to better protect against unforeseen increases in materials and labor. We are taking a hard look at our business practices, not only to improve the quality of our services for our clients, but also the quality of our earnings for our stockholders.

The impact of these losses is shown in the following table:

	2007	2006	2005
	(in thousands)		
Revenue			
Fixed-price EPC	$ 2,000	$ 20,155	$ --
Gross profit			
Fixed-price EPC	2,000	(13,740)	--
SG&A			
Goodwill impairment	432	--	--
Note collectability reserve - SLE	3,178	--	--
Operating income	(1,610)	(13,740)	--
Other income			
Settlement on hurricane loss	--	418	--
Gain on sale of office buildings	483	--	119

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 contains segment information.

Overview

Results of Operations

During the first three quarters of 2007, the Company managed and reported through two business segments: Engineering and Systems. In the fourth quarter of 2007, due to the past and anticipated growth in certain areas of our business and change in leadership during 2007, we reevaluated our reportable segments under Financial Accounting Standards Board Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." As a result, we have elected to realign both management and reporting into four business segments: Engineering, Construction, Automation and Land.

The Engineering segment provides consulting services relating to the development, management and execution of projects requiring professional engineering and related project services. Services provided by the Engineering segment include feasibility studies, engineering, design, procurement, and construction management. The Construction segment provides construction management personnel and services in the areas of inspection, mechanical integrity, vendor and turnaround surveillance, field support, construction, quality assurance and plant asset management. The Automation segment provides services related to the design, fabrication, and implementation of process distributed control and analyzer systems, advanced automation, and information technology projects. The Land segment provides land management, right-of-way, and governmental regulatory compliance services primarily to the pipeline, utility and telecom companies and other owner/operators of infrastructure facilities throughout the United States and Canada.

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

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

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

Corporate SG&A expense is comprised primarily of marketing costs, as well as costs related to the executive, governance/investor relations, finance, accounting, safety, human resources, project controls and information technology departments and other costs generally unrelated to specific client projects. Corporate SG&A expense may vary as costs are incurred to support corporate activities and initiatives.

The following table sets forth, for the periods indicated, certain financial data derived from our consolidated statements of operations and indicates the percentage of total revenue for each item.

	Years Ended December 31,					
	2007		2006		2005	
	Amount	%	Amount	%	Amount	%
	(in thousands)					
Revenue						
Engineering	$ 221,787	61.0	$ 215,306	71.1	$ 193,376	82.8
Construction	73,210	20.2	36,128	11.9	21,898	9.4
Automation	37,766	10.4	34,888	11.5	18,311	7.8
Land	30,464	8.4	16,768	5.5	-	0.0
Total revenue	$ 363,227	100.0	$ 303,090	100.0	$ 233,585	100.0
Gross profit						
Engineering	$ 39,966	11.0	$ 15,661	5.2	$ 23,603	10.1
Construction	9,724	2.7	3,725	1.2	2,415	1.0
Automation	3,384	0.9	4,488	1.5	2,255	1.0
Land	4,543	1.3	2,390	0.8	-	0.0
Total gross profit	$ 57,617	15.9	$ 26,264	8.7	$ 28,273	12.1
Selling, general and administrative						
Engineering	$ 11,665	3.2	$ 9,466	3.1	$ 6,789	2.9
Construction	2,591	0.7	2,146	0.7	1,127	0.5
Automation	3,442	1.0	3,909	1.3	2,296	1.0
Land	2,438	0.7	1,674	0.6	-	-
Corporate	14,638	4.0	12,689	4.2	9,475	4.0
Total SG&A	$ 34,774	9.6	$ 29,884	9.9	$ 19,687	8.4
Net income (loss)	$ 12,464	3.4	$ (3,486)	(1.2)	$ 4,782	2.1

OVERALL COMPARISONS

Revenue

Overall revenue increased 19.8%, or $60.1 million, from $303.1 million in 2006 to $363.2 million in 2007 and increased 29.8%, or $69.7 million, from $233.6 million in 2005. Approximately 36% of our revenue growth from 2006 to 2007 was external growth as a result of the incremental revenue contribution from 2006 acquisitions. The balance of the revenue growth from 2006 to 2007 occurred as a result of internal measures.

Gross Profit

Gross profit increased $31.3 million, or 119.0%, from $26.3 million in 2006 to $57.6 million in 2007 but decreased $2.0 million, or 7.1%, from $28.3 million in 2005. As a percentage of revenue, gross profit increased by 7.2% from 8.7% in 2006 to 15.9% in 2007 but decreased 3.4% in 2006 from 12.1% in 2005. The major factors that contributed to improved gross profit margins in 2007 relative to 2006 were improved billing rate structures, a mix of work that had less low-margin pass-through procurement and subcontracted construction revenue, and losses on two fixed-price projects that negatively impacted 2006.

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

Overall SG&A expenses increased $4.9 million, or 16.4%, from $29.9 million in 2006 to $34.8 million in 2007. In 2006, overall SG&A expense increased $10.2 million, or 51.8%, from $19.7 million in 2005. As a percentage of revenue, SG&A decreased 0.3% from 9.9% in 2006 to 9.6% in 2007 and increased 1.5% from 8.4% in 2005. Details relating to the changes in each segment are discussed further in Item 7.

Corporate SG&A expenses increased $1.9 million, or 15.0%, from $12.7 million in 2006 to $14.6 million in 2007. The increase relates primarily to salaries and employee-related expenses, which increased $1.7 million. Of these expenses, $0.9 million relates to the management incentive plan. Since the Company experienced losses in 2006, we incurred no management incentive plan expense during that year. The remainder is attributable to a general increase in corporate overhead positions to support company growth. There was also an increase in professional services for items such as Sarbanes-Oxley ("SOX") compliance and audits totaling $0.2 million and an increase of amortization and depreciation expense of $0.2 million. These increases were offset by a decrease in stock compensation expense of $0.5 million. As a percent of revenue, corporate SG&A decreased 0.2% from 4.2% in 2006 to 4.0% in 2007.

Corporate selling, general and administrative expenses increased $3.2 million, or 33.7%, from $9.5 million in 2005 to $12.7 million in 2006. Of the $3.2 million increase, $1.7 million is attributable to stock compensation expense and $0.4 million is attributable to professional services. The Company did not record stock compensation expense during 2005, as the Company adopted SFAS No. 123(r) on January 1, 2006 (see Note 11). Professional services included increases for SOX compliance and audits. Also, salaries and employee-related expenses increased $0.7 million as a result of the addition of corporate overhead positions in the business development, accounting, and IT departments. Facilities and office expenses increased $0.2 million. As a percent of revenue, SG&A increased 0.2% from 4.0% in 2005 to 4.2% in 2006.

Operating Profit

Operating profit increased $26.4 million to $22.8 million in 2007 as compared to $(3.6) million in 2006, increasing, as a percentage of total revenue, from (1.2)% in 2006 to 6.3% in 2007. This increase was primarily the result of the Company's performance in 2006 on two fixed-price contracts that did not recur in 2007. However, the operating profit of 2007 was reduced by a $4.0 million charge taken in relation to the SLE project. Operating profit decreased $12.2 million to $(3.6) million in 2006 as compared to $8.6 million in 2005, decreasing, as a percentage of total revenue, from 3.7% in 2005 to (1.2)% in 2006.

Other Income (Expense)

Other income decreased from $651,500 in 2006 to $379,600 in 2007. Other income was $116,000 in 2005. Other income in 2007 was derived mainly from the sale of the building in Baton Rouge offset by a loss on the sale of assets for the closing of our Dallas office. Other income in 2006 was primarily derived from insurance proceeds received by PEI Investments relating to our Hurricane Rita losses. PEI's portion, prior to the May 25, 2006 purchase of two-thirds of the partnership interest by ECS, was $400,000. From that time to December 31, 2006, almost $314,000 more in insurance was received. This is offset by approximately $30,000 in government penalties and the remainder in the write-off of software licenses.

Net Income

Net Income increased $16.0 million to $12.5 million in 2007 as compared to $(3.5) million in 2006, increasing, as a percentage of total revenue, from (1.2)% in 2006 to 3.4% in 2007. Net Income decreased $8.3 million to $(3.5) million in 2006 as compared to $4.8 million in 2005, decreasing, as a percentage of total revenue, from 2.1% in 2005 to (1.2)% in 2006.

Engineering Segment:

	Twelve Months Ended December 31,					
	2007		2006		2005	
	(dollars in thousands)					
Gross revenue	$ 221,802		$ 215,444		$ 193,376	
Less intercompany revenue	(15)		(138)		--	
Total revenue:						
Detail-design	132,210	59.6%	111,503	51.8%	89,904	46.4%
Field services	56,379	25.4%	53,921	25.0%	34,312	17.8%
Procurement services	16,011	7.2%	19,271	9.0%	59,527	30.8%
Fixed-price	17,187	7.8%	30,611	14.2%	9,633	5.0%
Total revenue:	$ 221,787	100.0%	$ 215,306	100.0%	$ 193,376	100.0%
Gross profit:	$ 39,966	18.0%	$ 15,661	7.3%	$ 23,603	12.2%
Operating SG&A expense:	$ 11,665	5.3%	$ 9,466	4.4%	$ 6,789	3.5%
Operating income:	$ 28,301	12.8%	$ 6,195	2.9%	$ 16,814	8.7%

Revenue

Engineering revenue accounted for 61.0% of our total revenue for the year, increasing $6.5 million from $215.3 million in 2006 to $221.8 million in 2007. During 2006, revenue increased $21.9 million from $193.4 million in 2005.

The increase in engineering revenue was primarily brought about by increased activity in the engineering and construction markets. Refining related activity has been particularly strong, including projects to satisfy environmental mandates, expand existing facilities and utilize heavier sour crude. Capital spending in the pipeline area is also trending higher, with numerous projects in North America currently underway to deliver crude oil, natural gas, petrochemicals and refined products. Renewable energy appears to be an emerging area of activity and potential growth, with the Company currently performing a variety of services for ethanol, biodiesel, coal-to-liquids, petroleum coke to ammonia, and other biomass processes. The Engineering segment's estimated backlog at December 31, 2007 was $150.8 million.

Our detail design services proved strong with revenues increasing 18.6%, or $20.7 million, from $111.5 million in 2006 to $132.2 million in 2007. In 2006, these services increased 24.0%, or $21.6 million, from $89.9 million in 2005. As a percent of total engineering revenue, detail design revenue increased 7.8% to 59.6% in 2007 from 51.8% in 2006 and increased 5.4% in 2006 from 46.4% in 2005.

Our field services revenues remained relatively stable with an increase of 4.6%, or $2.5 million, from $53.9 million in 2006 to $56.4 million in 2007. In 2006, field services revenue increased 57.2%, or $19.6 million, from $34.3 million in 2005. This was due to an increased demand from our existing customers for in-plant resources. As a percent of total engineering revenue, field services revenue increased 0.4% to 25.4% in 2007 from 25.0% in 2006 and increased 7.2% in 2006 from 17.8% in 2005.

Revenue from procurement services decreased 17.1%, or $3.3 million, from $19.3 million in 2006 to $16.0 million in 2007. In 2006, these services decreased 67.6%, or $40.2 million, from $59.5 million in 2005. This significant decrease is primarily related to three projects, two of which began in 2003 and one of which began in 2005 and all of which were materially completed in 2006. As a percent of total engineering revenue, procurement services revenue decreased 1.8% to 7.2% in 2007 from 9.0% in 2006 and decreased a significant 21.8% from 30.8% in 2005. The level of procurement services varies over time depending on the volume of procurement activity our customers choose to do themselves as opposed to using our services.

Fixed-price revenues decreased 43.8%, or $13.4 million, from $30.6 million in 2006 to $17.2 million in 2007. There was an increase in 2006 of 215.5%, or $20.9 million, from $9.7 million in 2005. As a percent of total engineering revenue, fixed-price revenue decreased 6.4% to 7.8% in 2007 from 14.2% in 2006, but in 2006 it increased 9.2% from 5.0% in 2005. In 2005, the Company was awarded two significant fixed-price engineering, procurement and construction ("EPC") projects in the refining industry that included procurement and subcontractor activities within our scope of work. This accounts for the higher level of procurement revenue in that year. Together, these two fixed-price EPC projects accounted for approximately $20.2 million of the Engineering segment revenues during 2006, compared to approximately $1.8 million during 2005. The current combined contract value of these two projects is approximately $24.6 million and both have been completed. As a result of revised estimates of the percentage of completion of these projects, the Company suffered reversals of $6.6 million in the third quarter of 2006 and $7.1 million in the fourth quarter of 2006. Due to losses incurred in connection with these contracts, we anticipate entering into this type of contract in the future only on a very limited basis.

Gross Profit

Our Engineering segment's total gross profit increased $24.3 million, or 155.2%, from $15.7 million in 2006 to $40.0 million in 2007. As a percentage of total gross profit, the Engineering segment's gross profit increased from 7.3% to 18.0% during the same period. Due to losses on two EPC fixed-price contracts in our Engineering segment, as discussed above, total gross profit in 2006 decreased $7.9 million, or 33.5%, from $23.6 million in 2005. The increase in 2007 was primarily due to the lack of similar loss activities in 2007.

While the two EPC contracts did contribute approximately $20.2 million to revenue, increasing revenues for 2006, the cost and loss recognition for the same time period was $33.9 million. The net result was a negative impact of approximately $13.7 million to gross profit. Both of the significant fixed-price EPC projects were completed in 2007.

In 2006, the Company shifted a portion of its services to developer-type work for customers that are typically smaller than its historical customer base, including SLE. The viability of these projects and the creditworthiness of these types of customers must be carefully analyzed to assure profitable results. In the future, the Company intends to analyze these projects on a more comprehensive basis before accepting them.

The Company has also engaged in a number of entrepreneurial ventures over the past several years, not all of which have been profitable. In the future, the Company intends to scrutinize these projects much more carefully before engaging in them and exit them more quickly if they are not successful. During 2007, one of those ventures was discontinued in March with the closing of our Dallas office as the location did not provide the intended benefits.

We earn a lower margin on procurement services than we earn on our core engineering services. For example, procurement services for 2007 produced a 2.8% gross profit margin, whereas core engineering services produced a gross profit margin of 19.3%. If the Company's business shifts away from predominantly engineering projects to EPC projects which include material procurement and construction responsibility, engineering gross profit as a percentage of revenue will be negatively impacted. This shift would precipitate lower gross profit because higher cost-plus margins on engineering labor, recognized during the period in which it was earned, would now be combined with the lower margins on procurement services and construction subcontractor charges and recorded throughout the duration of the projects.

Operating Selling, General and Administrative ("SG&A") Expenses
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Our Engineering segment's SG&A expenses increased $2.2 million, or 23.2%, from $9.5 million in 2006 to $11.7 million in 2007. In 2006, the Engineering segment's SG&A expenses increased $2.7 million, or 39.7%, from $6.8 million in 2005. As a percent of revenue, SG&A increased 0.9% from 4.4% in 2006 to 5.3% in 2007, and it increased 0.9% in 2006 from 3.5% in 2005.

The Engineering segment's SG&A expenses increased $4.7 million in 2007 over 2006 as a result of increases for bad debt expense. Of this increase, $4.0 was related to creation of the reserve against the SLE notes receivable, while the

remainder comprised general increases to the allowance for doubtful accounts. To offset these increases, facilities and office expenses decreased by $1.2 million due to the closing of the Dallas office in March 2007. Also, salaries and employee expenses decreased by $0.9 million as a result of the reclassification of some employees from overhead to direct expense positions. Additional savings were recognized in stock compensation expense and professional services.

The Engineering segment's SG&A expenses increased $2.7 million in 2006 over 2005, primarily as a result of increases of $1.5 million in facilities and office expense. These increases resulted from expansions in the Tulsa, Houston and Beaumont offices to meet both current and projected growth requirements. Salaries and burden expenses increased $0.4 million and stock compensation expense increased $0.3 million. The Company did not record stock compensation expense during 2005, as the Company adopted SFAS No. 123(r) on January 1, 2006 (see Note 11).

Operating Profit

Operating profit increased $22.1 million to $28.3 million in 2007 as compared to $6.2 million in 2006, which decreased $10.6 million from $16.8 million in 2005. As a percentage of total revenue, operating profit increased to 12.8% in 2007 from 2.9% in 2006, but decreased from 8.7% in 2005. This increase was primarily the result of the Company's performance in 2006 on two fixed-price contracts that did not recur in 2007.

Construction Segment:

	Twelve Months Ended December 31,					
	2007		2006		2005	
	(dollars in thousands)					
Gross revenue	$ 86,811		$ 37,083		$ 22,696	
Less intercompany revenue	(13,601)		(955)		(798)	
Total revenue:						
Pipeline	60,430	82.5%	28,987	80.2%	16,639	76.0%
Non-pipeline	12,780	17.5%	7,141	19.8%	5,259	24.0%
Total revenue:	$ 73,210	100.0%	$ 36,128	100.0%	$ 21,898	100.0%
Gross profit:	$ 9,724	13.3%	$ 3,725	10.3%	$ 2,415	11.0%
Operating SG&A expense:	$ 2,591	3.5%	$ 2,146	5.9%	$ 1,127	5.1%
Operating income:	$ 7,133	9.7%	$ 1,579	4.4%	$ 1,288	5.9%

Revenue

The Construction segment contributed 20.2% of our total revenue for 2007, as its revenue increased $37.1 million, or 102.8%, from $36.1 million in 2006 to $73.2 million in 2007. The revenue in 2006 for this segment increased 64.8%, or $14.2 million, from $21.9 million in 2005. Additional growth is expected as the demand for pipeline and OSHA plant inspection, as well as plant turnaround and construction management support projects and high-tech maintenance services, continues to be sourced. The Construction segment's estimated backlog at December 31, 2007 was $88.2 million.

A general increase in the construction markets along with increased capital spending in the pipeline area, particularly in inspection services, has contributed to the increases in revenue in the Construction segment. Also contributing to the increase in revenue was the acquisition of certain assets, including ongoing projects, of Watco Management in the fourth quarter of 2006.

The revenue from this segment comes entirely from field services that are not typically limited to one project. The Company's past experience with this activity is that the term of these assignments on average spans multiple projects and multiple years.

Gross Profit

The Construction segment's gross profit increased $6.0 million, or 162.7%, from $3.7 million in 2006 to $9.7 million in 2007. In 2006, this segment's gross profit increased $1.3 million, or 54.2%, from $2.4 million in 2005. As a percent of revenue gross profit increased by 3.0%, from 10.3% in 2006 to 13.3% in 2007, but it decreased 0.7% in 2006 from 11.0% in 2005.

There has been a significant increase in activity for this segment resulting in higher gross profits. Gross profit as a percent of revenue has also increased due to higher margin services, such as turnaround support and high-tech maintenance, provided as a result of the acquisition of certain assets of Watco Management in the fourth quarter of 2006.

Operating Selling, General and Administrative ("SG&A") Expenses
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The Construction segment's SG&A expenses increased $0.4 million, or 19.1%, from $2.1 million in 2006 to $2.6 million in 2007. In 2006, SG&A expenses increased $1.0 million, or 90.9%, from $1.1 million in 2005. As a percent of revenue, SG&A decreased 2.4% from 5.9% in 2006 to 3.5% in 2007, but it increased 0.8% in 2006 from 5.1% in 2005.

The Construction segment's SG&A expenses increased $0.4 million in 2007 over 2006 mainly due to increases in salaries and related employee expenses of $362,000. Overhead positions were added to accommodate the internal and acquisition-related growth of this segment. Additionally, facilities expense increased $75,000 as a result of additional office space leased to house acquired operations.

The $1.0 million increase in our Construction segment's SG&A expenses in 2006 over 2005 was mainly attributable to salaries and related employee expenses of $714,000. Facilities and office expenses increased $80,000 and stock compensation expense increased $142,000. The Company did not record stock compensation expense during 2005, as the Company adopted SFAS No. 123(r) on January 1, 2006 (see Note 11).

Operating Profit

This segment's operating profit increased $5.5 million to $7.1 million in 2007 from $1.6 million in 2006, and it increased $300,000 in 2006 from $1.3 million in 2005. As a percentage of total revenue, operating profit increased to 9.7% in 2007 from 4.4% in 2006, but it decreased in 2006 from 5.9% in 2005.

Automation Segment:

	Twelve Months Ended December 31,					
	2007		2006		2005	
	(dollars in thousands)					
Gross revenue	$ 39,115		$ 37,206		$ 19,889	
Less intercompany revenue	(1,349)		(2,318)		(1,578)	
Total revenue:						
Fabrication	22,814	60.4%	26,032	74.6%	14,159	77.3%
Non-fabrication	14,952	39.6%	8,856	25.4%	4,152	22.7%
Total revenue:	$ 37,766	100.0%	$ 34,888	100.0%	$ 18,311	100.0%
Gross profit:	$ 3,384	9.0%	$ 4,488	12.9%	$ 2,255	12.3%
Operating SG&A expense:	$ 3,442	9.1%	$ 3,909	11.2%	$ 2,296	12.5%
Operating income:	$ (58)	(0.2%)	$ 579	1.7%	$ (41)	(0.2%)

Revenue

The Automation segment contributed 10.4% of our total revenue for the year, as its revenue increased $2.9 million, or 8.3%, from $34.9 million in 2006 to $37.8 million in 2007. This segment's revenue also increased 90.7% in 2006, or $16.6 million, from $18.3 million in 2005.

The Company began to focus more on automation services beginning in 2005 and began marketing them more aggressively at that time. Refining-related activity has been particularly strong, including projects to satisfy environmental mandates. This, together with the acquisition of Analyzer Technology International, Inc. ("ATI") in January 2006, has increased the demand for automation services. Another factor positively affecting the automation business is that the computer-based distributed control systems equipment used for facility plant automation becomes technologically obsolete over time, supporting ongoing replacement. The Automation segment's estimated backlog at December 31, 2007 was $19.6 million.

Gross Profit

The Automation segment's gross profit decreased $1.1 million, or 24.5%, from $4.5 million in 2006 to $3.4 million in 2007. In 2006, it increased $2.2 million, or 95.7%, from $2.3 million in 2005. Also, as a percent of revenue, gross profit decreased by 3.9% from 12.9% in 2006 to 9.0% in 2007, and it increased 0.6% in 2006 from 12.3% in 2005.

During 2007, the Automation segment expanded into several new regions, resulting in higher increased costs in relation to revenues. Also during 2007, an unanticipated shortage of available experienced labor caused an increase in labor hourly rates of approximately 25%. During that same period, most material costs unexpectedly increased approximately 8% to 10%, and the price of copper wire increased 300%. These increases in labor and material costs adversely affected project margins on fixed-price projects.

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

The Automation segment's SG&A expenses decreased $0.5 million, or 12.8%, from $3.9 million in 2006 to $3.4 million in 2007. In 2006, SG&A expenses increased $1.6 million, or 69.6%, from $2.3 million in 2005. As a percent of revenue, SG&A decreased 2.1% from 11.2% in 2006 to 9.1% in 2007, and it decreased 1.3% in 2006 from 12.5% in 2005.

This segment's SG&A expenses decreased $467,000 in 2007 over 2006, mainly due to decreases in salaries and related employee expenses of $896,000. Salaries and expenses for business development personnel were moved to corporate overhead in July 2006 to be consistent with the reporting of these costs throughout the

Company. The reduction of overhead personnel and the transfer of Automation segment overhead personnel expense to direct expense also contributed to this decrease. We also recognized professional services savings of $152,000 and $85,000 less in bad debt expense. Offsetting these savings, amortization costs increased by $674,000. Of these additional costs, $432,000 was goodwill impairment.

The Automation segment's SG&A expenses increased $1.6 million in 2006 over 2005 as a result of increased salaries and related employee expenses of $649,000. Facilities and office expenses increased $378,000 for expansion of office and warehouse space. Amortization and depreciation increased $339,000 mainly due to a non-compete agreement that was entered into with the acquisition of ATI in January 2006. Professional services increased $134,000 and stock compensation expense increased $37,000. The Company did not record stock compensation expense during 2005, as the Company adopted SFAS No. 123(r) on January 1, 2006 (see Note 11).

Operating Profit

This segment's operating profit decreased $637,000 to a loss of ($58,000) in 2007 as compared to $579,000 in 2006. Operating profit in 2006 increased $620,000 from a loss of ($41,000) in 2005. As a percentage of total revenue, operating profit decreased to (0.2)% in 2007 from 1.7% in 2006, but it increased in 2006 from (0.2)% in 2005.

Land Segment:

	Twelve Months Ended December 31,					
	2007		2006		2005	
	(dollars in thousands)					
Gross revenue	$ 30,464		$ 16,768		$ -	
Less intercompany revenue	-		-		-	
Total Revenue:	$ 30,464	100.0%	$ 16,768	100.0%	$ -	- %
Gross profit:	$ 4,543	14.9%	$ 2,390	14.2%	$ -	- %
Operating SG&A expense:	$ 2,438	8.0%	$ 1,674	10.0%	$ -	- %
Operating income:	$ 2,105	6.9%	$ 716	4.3%	$ -	- %

The Land segment was created through an acquisition of WRC Corporation in May 2006. Therefore, financial information for 2006 only includes seven months of activity compared to a complete year in 2007 and there was no activity for 2005 for this segment.

Revenue

The Land segment contributed 8.4% of our total revenues for 2007, as its revenue increased $13.7 million, or 81.6%, from $16.8 million in 2006 to $30.5 million in 2007. The WRC Corporation acquisition in May 2006 was the foundation for this segment. Therefore, 2006 financial information only includes seven months of activity. This acquisition has given ENGlobal additional cross-selling capabilities and allows us to offer our clients a turkey solution for a pipeline project - from right-of-way acquisition through the Land group to detail design through the Engineering group.

A general increase in capital spending by our clients has contributed to this increase in Land segment revenue. We have also been able to increase our client base. The Land segment's estimated backlog at December 31, 2007 was $30.6 million.

Gross Profit

Gross profit for our Land segment increased $2.2 million, or 91.7%, from $2.4 million in 2006 to $4.5 million in 2007. Also, as a percent of revenue, gross profit increased by 0.7% from 14.2% in 2006 to 14.9% in 2007.

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

The Land segment's SG&A expenses increased $0.7 million, or 41.2%, from $1.7 million in 2006 to $2.4 million in 2007. As a percent of revenue, SG&A decreased 2.0% from 10.0% in 2006 to 8.0% in 2007.

The increase is primarily due to the extended months reported for 2007. However, in reviewing SG&A as a percentage of revenue, there were decreases in facilities, marketing, and salaries and related employee expenses. In 2007, the Houston operations of the former WRC Corporation moved into the existing ENGlobal facilities and the Engineering segment took over some of the former WRC Corporation's facilities in Denver.

Operating Profit

The Land segment's operating profit increased $1.4 million to $2.1 million in 2007 from $0.7 million in 2006, increasing, as a percentage of total revenue, from 4.3% in 2006 to 6.9% in 2007.

Liquidity and Capital Resources

Overview

The Company defines liquidity as its ability to pay liabilities as they become due, fund the business operations and meet monetary contractual obligations. Our primary source of liquidity during the year ended December 31, 2007 was borrowings under our senior revolving credit facility with Comerica Bank, discussed under "Senior Revolving Credit Facility" below (the "Comerica Credit Facility"). Cash on hand at December 31, 2007 totaled $0.9 million and availability under the Comerica Credit Facility totaled $22.2 million resulting in total liquidity of $23.1 million. We believe that we have sufficient available cash required for operations for the next 12 months. However, cash and the availability of cash could be materially restricted if:

(1) circumstances prevent the timely internal processing of invoices,
(2) amounts billed are not collected or are not collected in a timely manner,
(3) project mix shifts from cost-reimbursable to fixed-price contracts during significant periods of growth,
(4) the Company loses one or more of its major customers,
(5) the Company experiences further cost overruns on fixed-price contracts,
(6) our client mix shifts from our historical owner-operator client base to more developer based clients,
(7) acquisitions are not integrated timely, or
(8) we not able to meet the covenants of the Comerica Credit Facility.

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

Cash Flows from Operating Activities

Operating activities required the use of $2.0 million, $9.0 million, and $0.9 million in net cash in 2007, 2006 and 2005, respectively. For the year ended December 31, 2007, cash generated from operations was offset by the increase in working capital and the reclassification of accounts and unbilled receivables to a long-term note receivable. The increase in working capital was primarily due to increased trade receivables of $3.9 million, increased costs in excess of billings of $1.6 million, and increased notes receivable of $9.2 million. The increase in receivables was due to higher revenues and the increase in costs in excess of billings was primarily related to contractual billing milestones on fixed-price projects in our Automation segment. The decrease in accounts payable primarily related to sub-contractor payments of approximately $8.7 million related to the EPC projects. The note receivable re-classification on the SLE project was related to the client's obligation in the principle amount of $12.3 million. Additional sub-contractor and vendor payments of $3.3 million related to the suspended ethanol project are scheduled for payment through the second quarter of 2008.

Cash flows from operating activities were significantly lower in 2006 than in 2005 and 2007 primarily due to the $13.7 million in operating losses recorded during 2006 on two fixed price EPC contracts.

Cash Flows from Investing Activities

Investing activities used cash totaling $1.7 million in 2007, compared to $9.3 million in 2006 and $2.4 million in 2005. In 2007, our investing activities consisted of capital additions of $2.2 million primarily for computers and technical software applications. Future investing activities are anticipated to remain consistent with prior years and include capital additions for leasehold improvements, technical applications software, and equipment, such as upgrades to computers. Our new credit agreement with Comerica Bank (the "New Credit Agreement"), discussed under "Senior Revolving Credit Facility" below, limits annual capital expenditures to $3.25 million. The investing activity in 2006, which was significantly higher than in 2005 and 2007, was primarily a result of the investments made in acquiring WRC Corporation, and certain assets of both ATI and Watco.

Cash Flows from Financing Activities

Financing activities provided cash totaling $3.2 million, $19.6 million, and $3.5 million in 2007, 2006, and 2005, respectively. Our primary financing mechanism is our revolving line of credit. The line of credit has been used principally to finance accounts receivable. During 2007, our borrowings on the line of credit were $175.7 million in the aggregate, and we repaid an aggregate

of $171.8 million on our short-term and long-term bank and other debt. Cash flow from financing activity in 2006, which was significantly higher than in 2005 and 2007, was primarily a result of borrowings related to the acquisition activities related to WRC Corporation, ATI, and Watco plus the losses related to the two fixed-price contracts.

We anticipate that future cash flows from financing activities will be borrowings, payments on the line of credit and payments on long-term debt instruments. Line of credit fluctuations are a function of timing related to operations, obligations and payments received on accounts receivable. We estimate that payments on long-term debt, including interest for the coming year, will be $1.5 million.

Senior Revolving Credit Facility

Historically, we have satisfied our cash requirements through operations and borrowings under a revolving credit facility. Effective August 8, 2007, the Company entered into the New Credit Agreement with Comerica Bank, which provides a three-year, $50 million senior secured revolving credit facility ("Revolver"). The New Credit Agreement is guaranteed by substantially all of Company's subsidiaries, is secured by substantially all of the Company's assets, and positions Comerica as senior to all other debt. It replaced a $35 million senior revolving credit facility that would have expired in July 2009. The outstanding balance on the New Credit Agreement as of December 31, 2007 was $27.8 million. The remaining borrowings available under the New Credit Agreement as of December 31, 2007 were $22.0 million after consideration of loan covenant restrictions.

At the Company's option, amounts borrowed under the New Credit Agreement will bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Leverage Ratio. The Alternate Base Rate is the greater of the Prime Rate or the Fed Funds Effective Rate, plus 1.0%. The additional margin ranges from 0% on the Alternate Base Rate loans and 1.50% to 2.0% on the LIBOR-based loans.

Upon maturity, the LIBOR debt will automatically roll into the Revolver unless the Company elects to renew, at which time a new maturity date and interest rate will be set.

The New Credit Agreement requires the Company to maintain certain financial covenants as of the end of each calendar month, including the following:

- Leverage Ratio not to exceed 3.00 to 1.00;
- Asset Coverage Ratio to be less than 1.00 to 1.00; and
- Net Worth must be greater than the sum of $40.1 million plus 75% of positive Net Income earned in each fiscal quarter after January 1, 2007 plus 100% of the net proceeds of any offering, sale or other transfer of any capital stock or any equity securities.

The New Credit Agreement also contains covenants that place certain limitations on the Company including limits on new debt, mergers, asset sales, investments, fixed-price contracts, and restrictions on certain distributions. The Company was in compliance with all covenants under the New Credit Agreement as of December 31, 2007.

Due to significant losses incurred on two fixed-price projects during the third and fourth quarters of 2006, the Company requested and was successful in obtaining a waiver and subsequent amendment to the New Credit Agreement with Comerica Bank in order to meet the monthly fixed charge ratio. If we had not been able to obtain a waiver or amendment of the covenant, we may have been unable to make further borrowings and may have been required to repay all loans then outstanding under the Comerica Credit Facility.

Letters of Credit

As of December 31, 2007, the Company had one letter of credit outstanding in the amount of $247,000 to cover self-insured deductibles under both our general liability and workers' compensation insurance policies. The letter of credit was issued in November 2007 and covers the policy period from September 30, 2007 through September 30, 2008.

Long-term Debt

Our total long-term debt outstanding on December 31, 2007 was $30.8 million (see Note 8), an increase from $27.1 million as of December 31, 2006. As of December 31, 2007, the Company had one letter of credit outstanding in the amount of $247,000 to cover self-insured deductibles under both our general liability and workers compensation insurance policies. The letter of credit was issued in November 2007 and covers our policy period September 30, 2007 through September 30, 2008.

The following table summarizes our contractual obligations as of December 31, 2007:

	Payments Due by Period					
	2008	2009	2010	2011	2012 and thereafter	Total
	(in thousands)					
Long-term debt	$ 1,508	$ 1,050	$28,268	$ --	$ --	$30,826
Contractual interest and discount on certain notes(1)	2,067	1,998	1,957	--	--	6,022
Subtotal long-term debt	3,575	3,048	30,225	--	--	36,848
Insurance note payable	931	--	--	--	--	931
Operating leases	4,341	3,527	3,272	2,649	1,418	15,207
Total contractual cash obligations	$ 8,847	$ 6,575	$33,497	$ 2,649	$ 1,418	$52,986

(1)Future interest consists primarily of interest on the line of credit under the New Credit Agreement. The rate applicable to debt outstanding at December 31, 2007, was 7.25% and fluctuates with the prime rate. Interest and discount rates on the remainder of the Company's Notes Payable vary from 4% to 6%, with the weighted average being 5.8% at December 31, 2007.

2007 Non-Cash Transactions

In 2007, non-cash transaction included $1,480,000 note receivable issued upon the sale of a building the Company owned in Baton Rouge, Louisiana and a note receivable in the principal amount of $12.3 million issued to South Louisiana Ethanol ("SLE") and evidenced by a hand note filed as Exhibits 10.19, 10.20 and 10.21. In 2006, non-cash transactions included $216,000 notes receivable issued for sale of assets and $3.9 million notes payable issued for acquisitions. Also in 2006, $1.4 million of stock was issued associated with the acquisition of WRC Corporation. There were no significant non-cash transactions in 2005. We also acquired insurance with notes payable of $1.2 million, $1.3 million, and $198,000 in 2007, 2006, and 2005, respectively.

Derivative Financial Instruments

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

Long-term Note Receivable

In the first quarter of 2007, ENGlobal Engineering, Inc. ("EEI") and South Louisiana Ethanol, LLC ("SLE") executed an agreement for EPC services relating to the retro-fit of an ethanol plant in southern Louisiana. The history of the SLE project (the "Project") is described in Note 12 to the Company's financial statements included in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (the "Third Quarter 10-Q").

After funding certain initial stages of the Project with cash, temporary financing was obtained from SLE's bridge lending bank in the amount of $20 million until permanent financing for the Project could be obtained. The parties anticipated that permanent financing would be obtained from other lenders no later than August 31, 2007. SLE had engaged a major commercial bank to assist with finding permanent financing. Further, SLE informed EEI that this commercial

bank had obtained permanent financing for numerous other ethanol facilities. Based on this, as well as on conversations between the Company's Chief Executive Officer and representatives of this commercial bank, EEI expected the financing for the Project to be consummated on a timely basis. Given this expectation, together with the favorable prices for corn and for ethanol, and the robust credit markets, EEI believed that the Project would be successful and commenced work in the fourth quarter of 2006.

In the late summer of 2007, although SLE was current in its payments, it had not obtained permanent financing, corn prices began to increase and ethanol prices began to decline. Accordingly the Company decided that it was advisable to obtain security for the amount due. On August 31, 2007, SLE executed a Collateral Mortgage, a Collateral Note, and a Promissory Note in the amount of up to $15 million, securing payment of the amount due, and the Company re-classed the amounts receivable from SLE to a Note Receivable. In connection with this Promissory Note, and as provided for under Louisiana law, SLE executed another promissory note (the "Hand Note") on or about October 22, 2007. The Hand Note had a principle balance of approximately $12.3 million, constituting all amounts then due.

SLE was current on all invoices through September 18, 2007. However, on September 20, 2007, SLE requested that EEI immediately demobilize its activity and instruct its subcontractors to do the same. EEI complied with this request. Because collectability was not assured, the Company reserved the amounts which were in excess of the Hand Note.

Although work has not recommenced on the Project and SLE has not obtained permanent financing, the Company continues to believe that, due to the value of the Collateral, the Note Receivable is fully collectible. Specifically, an updated appraisal from the bridge lending bank's appraiser indicates a fair market value of $35.8 million, an orderly liquidation value of $25.3 million, and a forced liquidation value of $20.0 million. Moreover, SLE may seek equity financing for the Project in lieu of or in addition to debt financing.

While the Company believes that in the event the Collateral is liquidated, SLE's obligations to the Company would be paid in full pursuant to the Collateral Mortgage in favor of the Company, collectability is not assured at this time. As a result, in the fourth quarter the Company recorded a valuation reserve and subsequent charge against Bad Debt expense in the amount of $3.2 million to reduce the Note Receivable to the amount of the Hand Note. The Company will continue to evaluate the SLE situation and, if required in the future, make adjustments to the reserve as necessary to remain in compliance with generally accepted accounting principles.

Contingent Liabilities and Commitments

To our knowledge, the Company is not involved in any environmental clean-up issues.

The Company does not have any product liability issues. Lease commitments are included in Footnote 2 of the financial statements. The Company leases all of its office space.

There are no off-balance sheet financing arrangements.

Income Tax Provision

On July 13, 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, and Related Implementation Issues," which provides guidance on the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions that a company has taken or expects to take on a tax return. Under FIN 48, financial statements should reflect expected future tax consequences of such positions presuming the taxing authorities have full knowledge of the position and all relevant facts. This interpretation also revises the disclosure requirements and was adopted by the Company effective as of January 1, 2007. There are currently no material tax positions identified as uncertain for the Company or its' subsidiaries.

We recognize interest related to uncertain tax positions in interest expense and penalties related to uncertain tax positions in governmental penalties. As of December 31, 2007, we have not recognized interest or penalties relating to any uncertain tax positions.

The Company is subject to federal and state income tax audits from time to time that could result in proposed assessments. The Company cannot predict with certainty the timing of such audits, how these audits would be resolved and whether the Company would be required to make additional tax payments, which may or may not include penalties and interest. The Company was subject to a Federal tax audit for the years 2002 and 2003. That examination has been closed.

During 2007, the Company's subsidiary, WRC Corporation was subject to an audit for the pre-acquisition fiscal year ending September 30, 2005. There was no material adjustment as a result of this audit, and it has been closed. The Company does not have any other examination on-going by the Internal Revenue Service, and the open years subject to audit are currently tax years 2004-2006. For most states where the Company conducts business, the Company is subject to examination for the preceding three to six years.

Asset Management

We typically sell our products and services on short-term credit and seek to minimize our credit risk by performing credit checks and conducting our own collection efforts. Our trade accounts receivable increased to $64.1 million from $60.2 million as of December 31, 2007 and 2006, respectively. The number of days outstanding for trade accounts receivable decreased from 69 days at December 31, 2006, to 61 days at December 31, 2007. Our actual bad debt expense has been approximately .08% and .03% of revenue for the years ended December 31, 2007 and 2006. We increased our allowance for doubtful accounts from $670,000 to $1.4 million or 3.0% of trade accounts receivable balance for each of the years 2006 and 2007, respectively.

Risk Management

In performing services for our clients, we could potentially face liability for breach of contract, personal injury, property damage or negligence, including professional errors and omissions. We often agree to indemnify our clients for losses and expenses incurred as a result of our negligence and, in certain cases, the sole or concurrent negligence of our clients. Our quality control and assurance program includes a control function to establish standards and procedures for performance and for documentation of project tasks, and an assurance function to audit and to monitor compliance with procedures and quality standards. We maintain liability insurance for bodily injury and third-party property damage, professional errors and omissions, and workers compensation coverage, which we consider sufficient to insure against these risks, subject to self-insured amounts.

Seasonality

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. The annual budgeting and approval process under which these clients operate is normally not completed until after the beginning of each new year, which can depress results for the first quarter. Principally due to these factors, our first and fourth quarters may be less robust than our second and third quarters.

Critical Accounting Policies

Revenue Recognition

Because the majority of the Company's revenue is recognized under cost-plus contracts, significant estimates are generally not involved in determining revenue recognition. During the fourth quarter, the collectability of revenue for the SLE project became questionable. Therefore, we did not recognize any revenue on this projects during the fourth quarter of 2007.

Most of our contracts are with Fortune 500 companies. As a result, collection risk is generally not a relevant factor in the recognition of revenue. However, timing of accounts receivable collections has resulted in a serious impact in the Company's liquidity. Also, the Company is engaging in more development contracts with smaller companies. We anticipate that collection risk will be greater on these projects. However, as a result of the SLE project collection issues, we have instituted new policies relating to ascertaining the creditworthiness of new customers.

Our revenue is largely composed of engineering service revenue and product sales. The majority of our services are provided through time-and-material contracts (also referred to as cost-plus contracts). Some contracts (typically smaller contracts) have not-to-exceed provisions that place a cap on the revenue that we may receive under a particular contract. The contract is awarded with a maximum aggregate revenue, referred to as the not-to-exceed amount. The Company does not earn revenue over the not-to-exceed amount unless we obtain a change order. The Company is not obligated to complete the contract once the not-to-exceed amount has been reached. Billings on time-and-material contracts are produced every two weeks.

On occasion, we serve as purchasing agent by procuring subcontractors, material and equipment on behalf of a client and passing the cost on to the client with no mark-up or profit. In accordance with Statement of Position ("SOP") 81-1, revenue and cost for these types of purchases are not included in total revenue and cost. For financial reporting this "pass-through" type of transaction is reported net. During 2007 and 2006, pass-through transactions totaled $0.5 million and $8.9 million, respectively

Profits and losses on fixed-price contracts are recorded on the percentage-of-completion method of accounting, measured by the percentage of contract costs incurred to date to estimated total contract costs for each contract. Contract costs include amounts paid to subcontractors. Anticipated losses on uncompleted construction contracts are charged to operations as soon as such losses can be estimated. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The asset, "costs and estimated earnings in excess of billings on uncompleted contracts," represents revenue recognized in excess of amounts billed on fixed-price contracts. The liability "billings in excess of costs and estimated profits on uncompleted contracts" represents amounts billed in excess of revenue recognized on fixed-price contracts.

Goodwill

Goodwill and intangible assets with indefinite useful lives are not amortized and are tested at least annually for impairment. We perform our annual analysis as of the fourth quarter of each fiscal year and in any period in which indicators of impairment warrant an additional analysis. Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. Goodwill is evaluated for impairment by first comparing management's estimate of the fair value of a reporting unit with its carrying value, including goodwill. Reporting units for the purpose of goodwill impairment calculations are components one level below our reportable operating segments.

Management utilizes a discounted cash flow analysis to determine the estimated fair value of our reporting units. Significant judgments and assumptions including the discount rate, anticipated revenue growth and gross margins, estimated operating and interest expense, capital expenditures are inherent in these fair value estimates which are based on our internal operating budgets. As a result, actual results may differ from the estimates utilized in our discounted cash flow analysis. The use of alternate judgments and/or assumptions could results in a fair value that differs from our estimate and could result in the recognition of an impairment charge in the financial statements.

As a result of these uncertainties, we utilize multiple scenarios and assign probabilities to each of the scenarios in the discounted cash flow analysis. The results of the discounted cash flow analysis are then compared to the carrying value of the reporting unit. If the carrying value of a reporting unit exceeds its fair value, a computation of the implied fair value of goodwill is compared with its carrying value. If the carrying value of the reporting unit goodwill exceeds the implied value fair value of that goodwill, an impairment loss is recognized in the amount of the excess. If an impairment charge is incurred, it negatively impacts our results of operations and financial position.

The results of our annual goodwill impairment analysis for the year ended December 31, 2007 indicated impairment to the recorded value of a goodwill asset within our Automation segment, specifically of ENGlobal Systems, Inc (ESI). As a result, the Company recorded an impairment charge of $432,000 in our Automation segment in the quarter ended December 31, 2007. The impairment stemmed primarily from a continuing decline in operating results and reduced cash flows from ESI. The $432,000 charge was a full impairment of the goodwill asset previously allocated and recorded to ESI as a result of the merger between Industrial Data Systems Corporation and Petrocon Engineering, Inc. in December 2001.

The Company did not have any impairment under the provisions of SFAS No. 142 as of December 31, 2006, or December 31, 2005.

Impairment and Restructuring

Except as described above, there was no additional impairment recognized as of December 31, 2007. Recognition of goodwill impairment for the systems component did not cause impairment of any other goodwill in the Automation segment. The restructuring of the segments was not a result of goodwill impairment recognition nor did the restructuring of the segments create the goodwill impairment charge.

In addition, there were no restructuring charges incurred for the year ended December 31, 2007. The closure of the Company's Dallas office in March 2007, as disclosed in the 2006 10-K, did not result in any restructuring charges. There were no restructuring charges incurred for the years ended December 31, 2006, and December 31, 2005.

Deferred Tax

The Company had net deferred tax assets of $3.2 million and 2.3 million on its balance sheet for the years ended December 31, 2007 and December 31, 2006, respectively. These net deferred tax assets are primarily related to timing differences and are identified in Footnote 15 to the financial statements.

Change Orders

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

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

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

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements." This statement establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The provisions of SFAS No. 157 should be applied prospectively as of the beginning of the fiscal year in which SFAS No. 157 is initially applied, except in limited circumstances. The Company adopted SFAS No. 157 as of January 1, 2008. The Company is currently evaluating the impact that this interpretation may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51." This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. The Company expects to adopt SFAS No. 160 beginning January 1, 2009. The Company is currently evaluating the impact that this interpretation may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations--a replacement of FASB Statement No. 141", which significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. The Company expects to adopt SFAS No. 160 beginning January 1, 2009. The Company does not expect this statement to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities--including an amendment to FASB Statement No. 115," which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The statement is effective for fiscal years beginning after November 15, 2007. In all likelihood, the Company will choose not to adopt the measurements in this provision.

Inflation and Changing Prices

The Company is planning to implement certain provisions in its fixed-price contracts, which would allow the Company to recover a portion of certain unforeseen price changes in materials and labor that are not in the range of normally expected inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2007 and 2006, the Company did not participate in any derivative financial instruments or other financial and commodity instruments for which fair value disclosure would be required under SFAS No. 107 or SFAS No. 133. There are no investments at December 31, 2007. Accordingly, the Company has no quantitative information concerning the market risk of participating in such investments.

The Company's primary interest rate risk relates to its variable-rate line of credit debt obligation, which totaled $27.8 million and $24.0 million as of December 31, 2007 and 2006, respectively. Assuming a 10% increase in the interest rate on this variable-rate debt obligation i.e., an increase from the actual average interest rate of 6.74% as of December 31, 2007, to an average interest rate of 7.42%, annual interest expense would have been approximately $188,000 higher in 2007 based on the annual average balance. The Company does not have any interest rate swap or exchange agreements.

The Company has no market risk exposure in the areas of interest rate risk from investments because the Company did not have an investment portfolio as of December 31, 2007.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The audited consolidated balance sheets for ENGlobal Corporation, as of December 31, 2006 and 2005 and statements of income, cash flows and stockholders' equity for the three-year period ended December 31, 2006, are attached hereto and made part hereof.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders ENGlobal Corporation

We have audited ENGlobal Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ENGlobal Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment:

The company lacks sufficient knowledge and expertise in financial reporting to adequately handle complex or non-routine accounting issues.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 financial statements, and this report does not affect our report dated March 27, 2008 on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, ENGlobal Corporation has not maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ENGlobal Corporation. as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007, of ENGlobal and our report dated March 27, 2008 expressed an unqualified opinion thereon.

/s/ Hein & Associates LLP

Hein & Associates LLP
Houston, Texas
March 27, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

Board of Directors
ENGlobal Corporation
Houston, Texas

We have audited the accompanying consolidated balance sheets of ENGlobal Corporation and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2007. We have also audited the schedule listed in the accompanying Item 8. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ENGlobal Corporation and subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Notes 1 and 11 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(r), "Share-Based Payment," effective January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ENGlobal Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our report dated March 27, 2008 expressed an opinion that ENGlobal Corporation had not maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Hein & Associates LLP

Hein & Associates LLP
Houston, Texas

March 27, 2008

ENGLOBAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(in thousands)

ASSETS

Current Assets	2007	2006
Cash	$ 908	$ 1,403
Trade receivables, net	64,141	60,248
Prepaid expenses and other current assets	2,125	1,724
Current portion of notes receivable	154	52
Costs and estimated earnings in excess of billings on uncompleted contracts	6,981	5,390
Deferred tax asset	3,081	2,310
Federal income taxes receivable	--	1,148
Total current assets	77,390	72,275
Property and equipment, net	6,472	8,725
Goodwill	19,926	19,202
Other intangible assets, net	4,112	5,427
Long-term notes receivable, net of current portion and allowance for uncollectible debt	10,593	129
Deferred tax asset, non-current	77	--
Other assets	1,020	469
Total assets	$ 119,590	$ 106,227

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable	$ 10,482	$ 14,672
Accrued compensation and benefits	16,182	12,807
Notes payable	931	1,110
Current portion of long-term debt	1,508	1,418
Deferred rent	558	679
Billings in excess of costs and estimated earnings on uncompleted contracts	963	540
Other liabilities	3,851	5,862
Total current liabilities	34,475	37,088
Long-Term Debt, net of current portion	29,318	27,163
Deferred Tax Liability	--	1,114
Total liabilities	63,793	65,365
Commitments and Contingencies (Notes 9, 10, 12, 16, 19 and 20)		
Stockholders' Equity		
Common stock - $0.001 par value; 75,000,000 shares authorized; 27,051,766 and 22,051,766 shares outstanding and 27,051,766 and 26,807,460 issued at December 31, 2007 and 2006, respectively	28	28
Additional paid-in capital	33,593	31,147
Retained earnings	22,181	9,717
Accumulated other comprehensive income (loss)	(5)	(30)
Total stockholders' equity	55,797	40,862
Total liabilities and stockholders' equity	$ 119,590	$ 106,227

See accompanying notes to these consolidated financial statements.

ENGLOBAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, (in thousands)		
	2007	2006	2005
Operating Revenue			
Engineering	$ 221,787	$ 215,306	$ 193,376
Construction	73,210	36,128	21,898
Automation	37,766	34,888	18,311
Land	30,464	16,768	--
Total revenue	363,227	303,090	233,585
Direct Costs			
Engineering	181,821	199,645	169,773
Construction	63,486	32,403	19,483
Automation	34,382	30,400	16,056
Land	25,921	14,378	--
Total direct costs	305,610	276,826	205,312
Gross Profit	57,617	26,264	28,273
Selling, General, and Administrative Expenses	34,774	29,884	19,689
Operating Income (Loss)	22,843	(3,620)	8,584
Interest expense	(2,514)	(1,312)	(800)
Other	344	633	114
Income (loss) before provision for income taxes	20,673	(4,299)	7,898
Provision for Income Taxes	8,209	(813)	3,116
Net Income (Loss)	$ 12,464	$ (3,486)	$ 4,782
Basic earnings (loss) per share	$ 0.46	$ (0.13)	$ 0.20
Weighted average common shares outstanding for basic	26,916	26,538	24,300
Diluted earnings (loss) per share	$ 0.45	$ (0.13)	$ 0.19
Weighted average common shares outstanding for diluted	27,435	26,538	25,250

See accompanying notes to these consolidated financial statements.

ENGLOBAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(in thousands)

	Common Stock Shares	Common Stock Stock	Additional Paid-In Capital	Accumulated Comprehensive Translation Gain/(Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
BALANCES-DECEMBER 31, 2004	23,467	$ 24	$ 12,198	$ --	$ 8,421	$ (592)	$ 20,051
Exercise of options	728	1	1,485	--	--	--	1,486
Common stock issued through employee stock purchase plan	95	--	231	--	--	--	231
Common stock issued through private placement	2,000	2	13,071	--	--	--	13,073
Tax benefit of non-qualified options exercised	--	--	245	--	--	--	245
Net income	--	--	--	--	4,782	--	4,782
Comprehensive income: Foreign currency translation adjustment	--	--	--	(4)	--	--	(4)
BALANCES-DECEMBER 31, 2005	26,290	$ 27	$ 27,230	$ (4)	$ 13,203	$ (592)	$ 39,864
Exercise of options	329	--	730	--	--	--	730
Shares issued at acquisition for WRC	175	1	1,399	--	--	--	1,400
Common stock issued through employee stock purchase plan	14	--	103	--	--	--	103
Common stock issued through private placement	--	--	(40)	--	--		(40)
Stock based compensation	--	--	2,176	--	--		2,176
Treasury shares retirement			(592)		--	592	--
Tax benefit of non-qualified options exercised	--	--	141	--	--	--	141
Net loss	--	--	--	--	(3,486)	--	(3,486)
Comprehensive income: Foreign currency translation adjustment		--	--	(26)	--	--	(26)
BALANCES-DECEMBER 31, 2006	26,808	$ 28	$ 31,147	$ (30)	$ 9,717	$ --	$ 40,862
Exercise of options	243	--	745	--	--	--	745
Stock based compensation	--	--	1,439	--	--		1,439
Tax benefit of non-qualified options, net	--	--	262	--	--	--	262
Net income	--	--	--	--	12,464	--	12,464
Comprehensive income:					--		12,464
Foreign currency translation adjustment	--	--	--	25	--	--	25
BALANCES-DECEMBER 31, 2007	27,051	$ 28	$ 33,593	$ (5)	$ 22,181	$ --	$ 55,797

See accompanying notes to these consolidated financial statements.

ENGLOBAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, (in thousands)		
	2007	2006	2005
Cash Flows from Operating Activities			
Net income (loss)	$ 12,464	$ (3,486)	$ 4,782
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities -			
Depreciation and amortization	4,550	3,369	1,836
Goodwill impairment	432	--	--
Stock based compensation	1,439	2,176	--
Deferred income tax expense	(1,962)	(2,316)	(313)
(Gain) Loss on disposal of property, plant and equipment	(408)	42	(132)
Changes in current assets and liabilities, net of acquisitions -			
Trade receivables	(3,894)	(9,825)	(15,463)
Notes receivable	(12,329)	--	--
Reserve on notes receivable	3,150	--	--
Inventories	--	154	19
Costs and estimated earnings in excess of billings	(1,591)	(1,245)	(2,981)
Prepaid expenses and other assets	(1,652)	508	630
Accounts payable	(4,190)	(1,236)	4,699
Accrued compensation and benefits	3,375	2,261	3,740
Billings in excess of costs and estimated earnings	423	(3,235)	1,462
Other liabilities	(3,416)	5,079	327
Income taxes receivable (payable)	1,629	(1,199)	474
Net cash used in operating activities	(1,980)	(8,953)	(920)
Cash Flows from Investing Activities			
Purchase of property and equipment	(2,195)	(3,405)	(3,230)
Additional consideration for acquisitions	18	--	(26)
Proceeds from insurance	--	68	--
Partnership distributions	--	350	--
Acquisitions of businesses, net of cash acquired	--	(6,528)	--
Proceeds from sale of assets	470	185	15
Proceeds from sale of Thermaire	--	--	823
Net cash used in investing activities	(1,707)	(9,330)	(2,418)
Cash Flows from Financing Activities			
Borrowings on line of credit	175,674	143,821	92,152
Payments on line of credit	(171,802)	(123,632)	(101,907)
Proceeds from issuance of common stock	1,007	934	15,035
Proceeds from notes receivable	93	38	--
Short-term borrowings (repayments)	--	--	(1,038)
Capital lease repayments	--	--	(4)
Long-term debt repayments	(1,805)	(1,608)	(745)
Net cash provided by financing activities	3,167	19,553	3,493
Effect of Exchange Rate Changes on Cash	25	(26)	(4)
Net change in cash and cash equivalents	(495)	1,244	151
Cash and Cash Equivalents - beginning of year	1,403	159	8
Cash and Cash Equivalents - end of year	$ 908	$ 1,403	$ 159

See accompanying notes to these consolidated financial statements.

Supplemental Cash Flow Information	Years Ended December 31,		
	2007	2006	2005
Non-Cash Transactions			
Acceptance of note for asset sale	$ 1,480	$ --	$ --
Issuance of note for insurance	1,296	1,347	198
Retirement of treasury stock	--	592	--
Acceptance of note for Constant Power assets	--	(216)	--
Issuance of common stock for purchase of WRC Corporation	--	1,400	--
Issuance of note for ATI assets	--	1,000	--
Issuance of note for purchase of WRC Corporation	--	2,400	--
Issuance of note for Watco assets	--	500	--
Supplemental Cash Flow Information			
Cash paid during the year for -			
Interest	$ 2,575	$ 977	$ 890
State and federal income taxes	9,025	2,465	2,959
Refund from state franchise taxes	(56)	--	49

See accompanying notes to these consolidated financial statements.

NOTE 1 - BACKGROUND AND BASIS OF PRESENTATION

Basis of Presentation

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Our Company consolidates all of its wholly-owned subsidiaries and all significant inter-company accounts and transactions have been eliminated in the consolidation.

Organization

Brief descriptions of the active companies included in the consolidated group follow:

ENGlobal Corporation ("ENGlobal") - our public holding company.

ENGlobal Corporate Services, Inc. ("ECS") - provides the corporate oversight function.

ENGlobal Engineering, Inc. ("EEI") - focuses primarily on providing services to downstream petroleum refining, petrochemical and other processing plants, and also to upstream and midstream pipeline companies and gas processing plants.

ENGlobal Construction Resources, Inc. ("ECR") - focuses on energy infrastructure projects in the United States by offering construction management personnel and services.

RPM Engineering, Inc. d/b/a ENGlobal Engineering, Inc. ("RPM") - provides engineering services primarily in southeast Louisiana.

ENGlobal Systems, Inc. ("ESI") - primarily provides fabrication, testing and integration services.

ENGlobal Automation Group, Inc. ("EAG") - formerly ENGlobal Technologies, Inc. ("ETI") - focuses primarily on providing design and engineering services.

ENGlobal Technical Services, Inc. ("ETS") - formerly ENGlobal Design Group, Inc. ("EDG") - primarily provides Automated Fuel Handling Systems and services to branches of the U.S. military and public sector companies.

ENGlobal Canada, ULC - focuses primarily on providing design and engineering services.

ENGlobal Land, Inc., f/k/a WRC Corporation ("ELI") - provides land management, environmental compliance, and governmental regulatory services to the pipeline, utility and telecom companies and other owner/operators of infrastructure facilities.

WRC Canada - provides land management and inspection services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash includes cash in bank at December 31, 2007. The Company's banking system provides for daily replenishment of major bank accounts for check-clearing requirements. Accordingly, there were negative book balances of $2.9 million on December 31, 2007 and $2.7 million on December 31, 2006. Such balances result from outstanding checks that have not yet been paid by the bank and are reclassified to accounts payable in the accompanying consolidated balance sheets.

Revenue Recognition

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

On occasion, we serve as purchasing agent by procuring subcontractors, material and equipment on behalf of a client and passing the cost on to the client with no mark-up or profit. In accordance with Statement of Position ("SOP") 81-1, revenue and cost for these types of purchases are not included in total revenue and cost. For financial reporting this "pass-through" type of transaction is reported net. During 2007 and 2006, pass-through transactions totaled $0.5 million and $8.9 million, respectively.

Profits and losses on fixed-price contracts are recorded on the percentage-of-completion method of accounting, measured by the percentage-of-contract cost incurred to date relative to estimated total direct contract cost. Direct contract cost includes professional compensation and related benefits, materials, subcontractor services and other direct cost of projects. Any freight charges and inspection costs are directly charged to the project to which the charges relate. The cost recognized for labor includes all actual employee compensation plus a burden factor to cover estimated variable labor expenses for the year. These variable labor expenses consist of payroll taxes, self-insured medical plan expenses, workers compensation insurance, general liability insurance, and employee benefits for paid time off. The actual periodic cost for these expenses is adjusted at the end of each quarter to provide consistent cost recognition throughout the year.

Variable costs such as travel, repairs and maintenance, supplies and depreciation directly related to producing revenue are included in contract costs to arrive at gross profit.

Under the percentage-of-completion method, revenue recognition is dependent upon the accuracy of a variety of estimates, including the progress of engineering and design efforts, material installation, labor productivity, cost estimates and others. These estimates are based on various professional judgments made with respect to the factors noted and are difficult to accurately determine until projects are significantly underway. Due to uncertainties inherent to the estimation process, it is possible that actual completion costs may vary materially from estimates. Anticipated losses on uncompleted contracts are charged to operations as soon as such losses can be estimated. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Selling, general and administrative cost includes management and staff compensation, office cost such as rents and utilities, depreciation, amortization, travel and other expenses that are unrelated to specific client contracts, but directly relate to the support of each segment's operations.

Occasionally, it is appropriate under SOP 81-1 to combine or segment contracts. Contracts are combined in those limited circumstances when they are negotiated as a package in the same economic environment with an overall profit margin objective and constitute, in essence, an agreement to do a single project. In such cases, we recognize revenue and cost over the performance period of the

combined contracts as if they were one. Contracts may be segmented if the customer had the right to accept separate elements of a contract and the total economic returns and risks of the separate contract elements are similar to the economic returns and risks of the overall contract. For segmented contracts, we recognize revenue as if they were separate contracts over the performance periods of the individual elements or phases.

We have two principal types of contracts, further defined as follows:

Time-and-Materials Contracts

Cost-Plus, Labor Plus Fixed Mark-up

Under cost-plus, labor plus fixed mark-up contracts, clients are charged based on actual labor rates plus a fixed mark-up that includes estimated recoverable direct and indirect cost and a profit component, which is applied as a percentage of the recoverable labor, to arrive at a total dollar estimate in negotiating a cost-plus, labor plus fixed mark-up contract. We recognize revenue based on a multiple of the actual total number of labor hours completed on a project multiplied by the actual labor rates and multiplied by the negotiated fixed mark-up percentage, plus other non-labor costs at cost plus a fixed mark-up that we negotiate at the time of contract award. Aggregate revenue from cost-plus, labor plus fixed mark-up contracts may vary in scope and we generally must obtain a change order in order to receive additional revenue relating to any additional costs that exceed the original contract estimate (see "Change Orders").

Cost-Plus, Fixed Labor Rate

Under cost-plus, fixed labor rate contracts, clients are charged based on fixed labor rates by work classification (Project Manager, Sr. Engineer, Designer, CADD Operator, etc.) whereby the fixed labor rate includes estimated recoverable direct and indirect cost plus a profit component. In negotiating cost-plus, fixed labor rate contracts the total dollar estimate is a multiple of the fixed labor rates times the recoverable work class labor man-hours estimated to complete the project. We recognize revenue based on a multiple of the fixed labor rates times the actual total number of labor hours completed on a project, plus other non-labor costs at cost plus a fixed rate negotiated at the time of contract award. Aggregate revenue from cost-plus, fixed labor rate contracts may vary in scope and we generally must obtain a change order in order to receive additional revenue relating to any additional cost that exceed the original contract estimate (see "Change Orders").

Cost-Plus, Not-To-Exceed

Under cost-plus, not-to-exceed contracts, clients are charged on the same basis as either cost-plus, labor plus fixed mark-up, or cost-plus fixed labor rate contracts. The contract is awarded with a set maximum aggregate revenue, referred to as the not-to-exceed amount. The Company does not earn revenue over the not-to-exceed amount unless we obtain a change order. The Company is not obligated to complete the contract once the not-to-exceed amount has been reached.

Fixed-Price Contracts

Fixed-Price

Under fixed-price contracts, clients are charged an agreed amount negotiated in advance of a specific scope of work, be it related to engineering, construction and procurement service revenue or product sales. We recognize revenue on fixed-price contracts using the percentage-of-completion method described above. Prior to completion, gross profit recognition on any fixed-price contract is dependent upon the accuracy of our estimates and will increase to the extent that current estimates of aggregate actual cost are below the amounts previously estimated. Conversely, if the Company's current estimated cost exceeds prior estimates, gross profit will decrease and we may realize a loss on a project. In order to increase aggregate revenue on a contract, we generally must obtain a change order to receive payment for additional cost (see "Change Orders").

Guaranteed Max

Under a guaranteed max contract, clients are charged on the same basis; either as 1) cost-plus, labor plus fixed markup or 2) as cost-plus fixed labor rate. The contract is awarded with a set maximum aggregate revenue amount referred to as the guaranteed max amount. The Company is required to complete the scope of contract even if it has reached the guaranteed max amount. Therefore, the Company recognizes revenue on guaranteed max contracts using the percentage of completion method described above and treats them the same as fixed-price contracts. In order to increase aggregate revenue on a contract, we generally must obtain a change order to receive payment for additional cost (see "Change Orders").

Pre-Contract Costs

Pre-contract costs otherwise called Proposal costs are recorded in accordance with SOP 81-1. Costs that are incurred for a specific anticipated contract and that will result in no future benefits unless the contract is obtained should not be included in contract costs or inventory before the receipt of the contract. Costs related to anticipated contracts are charged to expenses as incurred because their recovery is not considered probable and are not reinstated by a credit to income on the subsequent receipt of the contract. The Company expenses pre-contract costs as they are incurred.

Change Orders

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

Change orders occur when changes are required or requested after work on a contract has begun. Change orders are documented and the terms of change orders are agreed with the client before the work is performed. Circumstances, at times, may require that work progress without the client's written agreement before the work is performed, resulting, in some cases, in a payment risk. Cost related to change orders is recognized when they are incurred. Change orders are included in the total estimated contract revenue when it is probable that the change orders will result in a bona fide addition to value that can be reliably estimated.

Inspection and Acceptance (Cost-plus Contracts)

Generally, other than on fixed-price contracts, clients inspect and accept work as executed based on designated milestones or billing cycles, although such acceptance does not waive the client's right to a claim under a warranty provision for work deficiencies that fail to meet industry standards.

Inspection and Acceptance (Fixed-Price Contracts)

Generally, clients inspect and accept work based on designated milestones, although such acceptance does not waive the client's right to a claim under a warranty provision for work deficiencies.

Contract Termination Provisions

Generally, our clients may terminate at any time and for any reason any part of the Company's project work by giving proper notice, specifying the part of the work to be terminated and the effective date of the termination. If any part of the work on a project is terminated, the client, with respect to such work, is required to reimburse the Company for all cost incurred prior to the effective date of termination and for all additional amounts that are directly related to the work performed. The client is required to issue a change order with respect to any termination.

Property and Equipment

All property and equipment is stated at cost, adjusted for accumulated depreciation. Depreciation is calculated using a straight-line method over the estimated useful lives of the related assets. The useful life is estimated to be 3 years for computers and autos, 5 years for software, furniture and fixtures, 10 years for machinery and equipment. Leasehold improvements are amortized over the term of the related lease.

Intangible Assets

Intangible assets are comprised of non-compete covenants and customer relationships acquired through acquisitions. As of December 31, 2007 and December 31, 2006, the cost and accumulated amortization of our intangible assets were as follows:

	Non-Compete Covenants	Use of Name	Customer Relationships	Total
As of December 31, 2007				
Intangible assets	$ 3,729	$ 7	$ 2,767	$ 6,503
Less: accumulated amortization	1,619	6	766	2,391
Intangible assets, net	$ 2,110	$ 1	$ 2,001	$ 4,112
As of December 31, 2006				
Intangible assets	$ 3,846	$ 10	$ 2,547	$ 6,403
Less: accumulated amortization	704	6	266	976
Intangible assets, net	$ 3,142	$ 4	$ 2,281	$ 5,427

Intangible assets are amortized using the straight-line method based on the estimated useful life of the intangible assets. Expected amortization expense of our amortizable intangible assets is as follows:

Years Ending, December 31	Non-Compete Covenants	Use of Name	Customer Relationships	Total
2008	$ 858	$ 1	$ 501	$ 1,360
2009	678	--	500	1,178
2010	475	--	500	975
2011	99	--	500	599
	$ 2,110	$ 1	$ 2,001	$ 4,112
Weighted average amortization period remaining at December 31, 2007 (years)	3.1	1.0	4.0	

Amortization expense has been $1,922,000, $1,087,000 and $125,000 for the three years 2007, 2006 and 2005, respectively.

Goodwill

Goodwill is not amortized and is tested at least annually for impairment. We perform our annual analysis as of the fourth quarter of each fiscal year and in any period in which indicators of impairment warrant an additional analysis. Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. Goodwill is evaluated for impairment by first comparing management's estimate of the fair value of a reporting unit with its carrying value, including goodwill. Reporting units for the purpose of goodwill impairment calculations are components one level below our reportable operating segments.

Management utilizes a discounted cash flow analysis to determine the estimated fair value of our reporting units. Significant judgments and assumptions including the discount rate, anticipated revenue growth and gross margins, estimated operating and interest expense, capital expenditures are inherent in these fair value estimates which are based on our internal operating budgets. As a result, actual results may differ from the estimates utilized in our discounted cash flow analysis. The use of alternate judgments and/or assumptions could results in a fair value that differs from our estimate and could result in the recognition of an impairment charge in the financial statements.

As a result of these uncertainties, we utilize multiple scenarios and assign probabilities to each of the scenarios in the discounted cash flow analysis. The results of the discounted cash flow analysis are then compared to the carrying value of the reporting unit. If the carrying value of a reporting unit exceeds its fair value, a computation of the implied fair value of goodwill is compared with its carrying value. If the carrying value of the reporting unit goodwill exceeds the implied value fair value of that goodwill, an impairment loss is recognized in the amount of the excess. If an impairment charge is incurred, it negatively impacts our results of operations and financial position.

The results of our annual goodwill impairment analysis for the year ended December 31, 2007 indicated impairment to the recorded value of a goodwill asset within our Automation segment, specifically of ENGlobal Systems, Inc (ESI). As a result, the Company recorded an impairment charge of $432,000 in our Automation segment in the quarter ended December 31, 2007. The impairment stemmed primarily from a continuing decline in operating results and reduced cash flows from ESI. The $432,000 charge was a full impairment of the goodwill asset previously allocated and recorded to ESI as a result of the merger between Industrial Data Systems Corporation and Petrocon Engineering, Inc. in December 2001.

The Company did not have any impairment under the provisions of SFAS No. 142 as of December 31, 2006, or December 31, 2005. Goodwill remaining on the books of the Company is as follows:

	Goodwill				
	Engineering	Automation	Construction	Land	Total
			($ in thousands)		
Balance at December 31, 2005	$ 12,916	$ 1,131	$ 1,408	$ --	$ 15,455
Additions due to earnouts	124	279	107	--	510
Acquisition additions	--	--	--	3,237	3,237
Balance at December 31, 2006	13,040	1,410	1,515	3,237	19,202
Additions due to earnouts	146	--	602	--	748
Reclassification to intangibles	--	(279)	--	--	(279)
Reclassification from intangibles	--	--	--	687	687
Recognition of impairment	--	(432)	--	--	(432)
Balance at December 31, 2007	$ 13,186	$ 699	$ 2,117	$ 3,924	$ 19,926

Long-lived Assets

The Company reviews long-lived assets and certain identifiable intangible assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The Company has not identified any such impairment losses.

Software Development Costs

Under the provisions of SOP-98-1 ENGlobal capitalizes costs associated with software developed or obtained for internal use when the preliminary project stage is completed, when management authorizes funding for the project, and the project is deemed probable of completion. Costs include 1) external direct costs of materials and services incurred in obtaining and developing the software, and 2) payroll and payroll related costs for employees who are directly associated with and devote time to the project. Capitalization of these costs ceases no later than the point at which the project is substantially complete and ready for its intended use. At that time, the costs are reclassified to fixed assets. Amortization of such costs is provided on the straight-line basis over 5 years.

Income Taxes

The Company accounts for deferred income taxes in accordance with the asset and liability method, whereby deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement and tax bases of its existing assets and liabilities. The provision for income taxes represents the current tax payable or refundable for the period plus or minus the tax effect of the net change in the deferred tax assets and liabilities during the period.

In June 2006, FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement 109 Accounting for Income Taxes, was issued. FIN No. 48 describes accounting for uncertainty in income

taxes, and includes a recognition threshold and measurement attribute for recognizing the effect of a tax position taken or expected to be taken in a tax return. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN No. 48 on January 1, 2007, and will not have a material effect on the Company's financial condition, results of operations, or cash flows.

Stock-Based Compensation

The Company currently sponsors a stock-based compensation plan as described below. Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised), "Share-Based Payment" ("SFAS No. 123(r)"). Under the fair value recognition provisions of SFAS No. 123(r), stock-based compensation is measured at the grant date based on the value of the awards and is recognized as expense over the requisite service period (usually a vesting period). The Company selected the modified prospective method of adoption described in SFAS No. 123(r). The fair values of the stock awards recognized under SFAS No. 123(r) are determined based on the vested portion of the awards; however, the total compensation expense is recognized on a straight-line basis over the vesting period.

Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under APB Opinion No. 25, no compensation expense was recognized for stock options issued to employees because the grant price equaled, or was above, the market price on the date of grant for options issued by the Company.

Earnings Per Share

Earnings per share were computed as follows:

	Reconciliation of Earnings per Share Calculation					
	2007		2006		2005	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
	($ in thousands)					
Net Income (Loss)	$ 12,464	$ 12,464	$ (3,486)	$ (3,486)	$ 4,782	$ 4,782
Weighted average number of shares outstanding for basic	26,916	--	26,538	--	24,300	--
Weighted average number of shares outstanding for diluted	--	27,434	--	26,538	--	25,250
Net income (loss) per share available for common stock	$ 0.46	$ 0.45	$ (0.13)	$ (0.13)	$ 0.20	$ 0.19

Diluted earnings per share are computed including the impact of all potentially dilutive securities. The following table sets forth the shares outstanding for the earnings per share calculations for the years ended December 31, 2007, 2006 and 2005.

	2007	2006	2005
Common stock issued - beginning of year	26,807,460	26,289,567	23,466,839
Weighted average common stock issued (repurchased)	108,749	248,723	833,275
Shares used in computing basic earnings per share	26,916,209	26,538,290	24,300,114
Assumed conversion of dilutive stock options	518,324	--	950,373
Shares used in computing diluted earnings per share	27,434,533	26,538,290	25,250,487

Use of Estimates

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying results. Actual results could differ from these estimates.

Fair Value of Financial Instruments

The fair value of financial instruments, primarily accounts receivable, notes receivable and accounts payable, closely approximate the carrying values of the instruments due to the short-term maturities of such instruments. Based on the borrowing rate currently available to the Company for loans with similar terms, we believe the fair value of the long-term obligations approximate their carrying value.

Comprehensive Income

Comprehensive income is defined as all changes in stockholders' equity, exclusive of transactions with owners, such as capital investments. Comprehensive income includes net income or loss, changes in certain assets and liabilities that are reported directly in equity, such as translation adjustments on investments in foreign subsidiaries, and certain changes in minimum pension liabilities. The cumulative translation adjustment is included in accumulated other comprehensive income. (See Note 4)

Reclassifications

Amounts in prior years' financial statements are reclassified as necessary to conform to the current year's presentation. Such reclassifications had no effect on net income.

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements." This statement establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The provisions of SFAS No. 157 should be applied prospectively as of the beginning of the fiscal year in which SFAS No. 157 is initially applied, except in limited circumstances. The Company adopted SFAS No. 157 as of January 1, 2008. The Company is currently evaluating the impact that this interpretation may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51." This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. The Company expects to adopt SFAS No. 160 beginning January 1, 2009. The Company is currently evaluating the impact that this interpretation may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations--a replacement of FASB Statement No. 141", which significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective prospectively,

except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. The Company expects to adopt SFAS No. 160 beginning January 1, 2009. The Company does not expect this statement to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment to FASB Statement No. 115," which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The statement is effective for fiscal years beginning after November 15, 2007. In all likelihood, the Company will choose not to adopt the measurements in this provision.

NOTE 4 - COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) represents net earnings (loss) and any revenue, expenses, gains and losses that, under accounting principles generally accepted in the United States of America, are excluded from net earnings (loss) and recognized directly as a component of stockholders' equity.

Accumulated other comprehensive income is as follows:

	2007	2006	2005
		(in thousands)	
Net income (loss) before foreign currency translation	$ 12,464	$ (3,486)	$ 4,782
Other comprehensive income:	--	--	--
Foreign currency translation adjustment	(5)	(26)	(4)
Comprehensive income (loss)	$ 12,459	$ (3,512)	$ 4,778

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2007 and 2006:

	2007	2006
	(in thousands)	
Land	$ 216	$ 418
Building	--	1,331
Computer equipment and software	10,770	9,048
Shop equipment	1,267	1,093
Furniture and fixtures	812	628
Building and leasehold improvement	2,128	2,018
Autos and trucks	273	260
	15,466	14,796
Accumulated depreciation and amortization	(9,165)	(6,536)
	6,301	8,260
Project controls and software upgrade in process	171	465
Property and equipment, net	$ 6,472	$ 8,725

Depreciation expense has been $2,898,000, $2,282,000 and $1,609,000 for the three years 2007, 2006 and 2005, respectively.

NOTE 6 - DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

The components of trade receivables as of December 31, 2007 and 2006 are as follows:

	2007	2006
	(in thousands)	
Amounts billed	$ 47,941	$ 43,655
Amounts unbilled	16,322	15,689
Retainage	1,283	1,574
Less: Allowance for uncollectible accounts	(1,405)	(670)
Trade receivables, net	$ 64,141	$ 60,248

The components of long-term notes receivable as of December 31, 2007 and 2006 are as follows:

	2007	2006
	(in thousands)	
Notes receivable - South Louisiana Ethanol	$ 12,329	$ --
Less: Reserve on long-term notes receivable	(3,150)	--
Notes receivable - Oak Tree Holdings	1,439	--
Other notes receivable and current portion	(25)	129
	$ 10,593	$ 129

On August 31, 2007, SLE executed a Collateral Mortgage, a Collateral Note, and a Promissory Note in the amount of up to $15 million, securing payment of the amounts due. In connection with this Promissory Note, and as provided for under Louisiana law, SLE executed another promissory note (the "Hand Note") on or about October 22, 2007. The Hand Note had a principle balance of approximately $12.3 million, constituting all amounts then due.

The Company continues to believe that, due to the value of the Collateral, the Note Receivable is fully collectible. Specifically, an updated appraisal from the bridge lending bank's appraiser indicates a fair market value of $35.8 million, an orderly liquidation value of $25.3 million, and a forced liquidation value of $20.0 million. Moreover, SLE may seek equity financing for the Project in lieu of or in addition to debt financing. Thus, under any valuation, the Company expects to receive payment on the Promissory Note.

While the Company believes that in the event the Collateral is liquidated, SLE's obligations to the Company would be paid in full pursuant to the Collateral Mortgage in favor of the Company, collectability is not assured at this time. As a result, the Company has recorded valuation reserve and subsequent charge against Bad Debt expense in the amount of $3.2 million to reduce the receivable to the amount of the Hand Note. The Company will continue to evaluate the SLE situation and, if required in the future, make adjustments to the reserve as necessary to remain in compliance with sound accounting principles.

The principal amount of the note receivable to Oak Tree Holdings was $1,480,000. The note was accepted, with cash, in payment of an office building located in Baton Rouge, Louisiana, which the Company sold in June 2007. The building remains collateral for the note. Payments are being made in monthly installments, with the final payment due in June 2012. Oak Tree Holdings is current on all payments as of December 31, 2007.

The components of other liabilities as of December 31, 2007 and 2006 are as follows:

	2007	2006
	(in thousands)	
Reserve for known contingencies	$1,777	$4,724
Accrued interest	292	297
Federal and state taxes payable	963	510
Other	819	331
Other liabilities	$3,851	$5,862

NOTE 7 - FIXED-PRICE CONTRACTS

Costs, estimated earnings and billings on uncompleted contracts consisted of the following at December 31, 2007 and 2006:

	2007	2006
	(in thousands)	
Costs incurred on uncompleted contracts	$ 74,599	$ 75,317
Estimated earnings (losses) on uncompleted contracts	(1,686)	(7,390)
Earned revenue	72,913	67,927
Less: Billings to date	66,895	63,077
Net costs and estimated earnings in excess of billings on uncompleted contracts	$ 6,018	$ 4,850
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 6,981	$ 5,390
Billings in excess of costs and estimated earnings on uncompleted contracts	(963)	(540)
Net costs and estimated earnings in excess of billings on uncompleted contracts	$ 6,018	$ 4,850

NOTE 8 - LINE OF CREDIT AND DEBT

Historically, we have satisfied our cash requirements through operations and borrowings under a revolving credit facility. Effective August 8, 2007, the Company entered into a new credit agreement (the "New Credit Agreement") with Comerica Bank, which provides a three-year, $50 million senior secured revolving credit facility. The New Credit Agreement is guaranteed by substantially all of Company's subsidiaries, is secured by substantially all of the Company's assets, and positions Comerica as senior to all other debt. It replaced a $35 million senior revolving credit facility that would have expired in July 2009. The outstanding balance on the New Credit Agreement as of December 31, 2007 was $27.8 million. The remaining borrowings available under the New Credit Agreement as of December 31, 2007 were $22.0 million after consideration of loan covenant restrictions.

At the Company's option, amounts borrowed under the New Credit Agreement will bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Leverage Ratio. The Alternate Base Rate is the greater of the Prime Rate or the Fed Funds Effective Rate, plus 1.0%. The additional margin ranges from 0% on the Alternate Base Rate loans and 1.50% to 2.0% on the LIBOR-based loans.

Upon maturity, the LIBOR debt will automatically roll into the Revolver unless the Company elects to renew, at which time a new maturity date and interest rate will be set.

The New Credit Agreement requires the Company to maintain certain financial covenants as of the end of each calendar month, including the following:

- Leverage Ratio not to exceed 3.00 to 1.00;
- Asset Coverage Ratio to be less than 1.00 to 1.00; and
- Net Worth must be greater than the sum of $40.1 million plus 75% of positive Net Income earned in each fiscal quarter after January 1, 2007 plus 100% of the net proceeds of any offering, sale or other transfer of any capital stock or any equity securities.

The New Credit Agreement also contains covenants that place certain limitations on the Company including limits on new debt, mergers, asset sales, investments, fixed-price contracts, and restrictions on certain distributions. The Company was in compliance with all covenants under the New Credit Agreement as of December 31, 2007.

Letters of Credit

As of December 31, 2007, the Company had one letter of credit outstanding in the amount of $247,000 to cover self-insured deductibles under both our general liability and workers' compensation insurance policies. The letter of credit was issued in November 2007 and covers the policy period from September 30, 2007 through September 30, 2008.

Long-term debt consisted of the following at December 31, 2007 and 2006:

	2007	2006
	(in thousands)	
Comerica Credit Facility - Line of credit, prime (6.74% at December 31, 2007), maturing in July 2010	$ 27,835	$ 23,963
The following notes are subordinate to the credit facility and are unsecured:		
Sterling Planet and EDGI - Notes payable, interest at 5%, principal payment installments of $15,000 plus interest due quarterly, maturing in December 2008	60	120
Cleveland Inspection Services, Inc., CIS Technical Services and F.D. Curtis - Notes payable, discounted at 5% interest, principal in installments of $100,000 due quarterly, maturing in October 2009	667	1,110
InfoTech Engineering, Inc. - Note payable, interest at 5%, principal payments in installments of $65,000 plus interest due annually, maturing in December 2007	--	75
ATI Technologies - Note payable, interest at 6%, principal payments in installments of $30,422 including interest due monthly, maturing in January 2009	382	713
Michael Lee - Note payable, interest at 5%, principal payments in installments of $150,000 plus interest due quarterly, maturing in July 2010	1,500	2,100
Watco Management, Inc. - Note payable, interest at 4%, principal payments in installments of $137,745 including interest annually, maturing in October 2010	382	500
Total long-term debt	30,826	28,580
Less: Current maturities	(1,508)	(1,418)
Long-term debt, net of current portion	$ 29,318	$ 27,163

Maturities of long-term debt as of December 31, 2007, are as follows:

	Maturities
	(in thousands)
Years Ending December 31,	
2008	$ 1,508
2009	1,050
2010	28,268
Total long-term debt	$ 30,826

NOTE 9 - OPERATING LEASES

The Company leases equipment and office space under long-term operating lease agreements.the future minimum rental payments on operating leases (with initial or remaining non-cancelable terms in excess of one year) as of December 31, 2007 are as follows:

	Operating (in thousands)
Years Ending December 31,	
2008	$ 4,341
2009	3,527
2010	3,272
2011	2,649
2012 and after	1,418
Total minimum lease payments	$15,207

Rent expense for the years ended December 31, 2007, 2006 and 2005 was $3,875,000, $5,502,000 and $2,167,000, respectively.

NOTE 10 - EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) profit sharing plan for its employees. Effective October 1, 2005, the Company amended the Plan to implement a mandatory matching contribution equal to 25% of employee contributions up to 4% of employee compensation for non-regular employees. For regular employees, the Company makes mandatory matching contributions equal to 50% of employee contributions up to 4% of employee compensation. The Company, as determined by the Board of Directors, may make other discretionary contributions. The employees may elect to make contributions pursuant to a salary reduction agreement upon meeting age and length-of-service requirements. The Company made contributions of approximately $2,147,000, $1,310,000, and $401,000, respectively, for the years ended December 31, 2007, 2006, and 2005. Effective April 1, 2006, the Company increased its matching contributions to the ENGlobal Corporation 401(k) Plan equal to 50% of regular employee contributions up to 6% of employee compensation, and all other employees will be matched at 33.33% of employee contribution up to 6% of compensation, as defined.

On June 17, 2004, ENGlobal stockholders ratified the Company's adoption of the 2004 Employee Stock Purchase Plan ("Plan"). Beginning April 2004, the Company provided eligible employees with the opportunity and a convenient means to purchase shares of the Company's common stock as an incentive to exert maximum efforts for the success of the Company. ENGlobal intended that options to purchase stock granted under the Plan would qualify as options granted under an "employee stock purchase plan" as defined in Section 423(b) of the Code. The Plan was construed so as to be consistent with Section 423 of the Code, including Section 423(b)(5) which requires that all participants have the same rights and privileges with respect to options granted under the Plan. The cash deferred by participants into the plan, although not significant, was used to meet the Company's cash requirements or was applied to the reduction of the Company's long-term debt. Because of requirements of SFAS 123(r), and probable reduction of benefits that would result, the Company elected to terminate the Plan effective December 31, 2005.

NOTE 11 - STOCK OPTION PLAN

The Company has an incentive plan that provides for the issuance of options to acquire up to 3,250,000 shares of common stock. The incentive plan ("Option Plan") provides for grants of non-statutory options, incentive stock options, restricted stock awards and stock appreciation rights. All stock option grants are for a ten-year term. Stock options issued to executives and management generally vest over a four-year period one-fifth at grant date and one-fifth at December 31 of each year until they are fully vested. Stock options issued to

directors vest one-half on grant date and the remaining half upon the first anniversary of grant date. In 2007 no incentive stock options were issued to employees. At the 2007 Annual Meeting of Corporate Stockholders, grants were approved for 50,000 shares to each external Board member. In 2006 one grant was issued fully vested following termination of a series under which the employee held a similar amount of shares. All stock options grants are issued at the market value of the Company's stock on the date of the grant.

Effective January 1, 2006, the Company adopted SFAS No. 123(r). This statement requires compensation expense relating to share-based payments to be recognized in net income using a fair-value measurement method. Under the fair value method, the estimated fair value of awards is charged over the requisite service period, which is generally the vesting period. The Company elected the modified prospective method as prescribed in SFAS No. 123(r) and therefore, prior periods were not restated. Under the modified prospective method, this statement was applied to new awards granted after the time of adoption.

The fair value of the 2007 options granted to directors is estimated on the date of grant using the Black-Scholes option-pricing model as follows:

Options Granted in 2007 Fair Values, Assumptions, and Impact on Net Income

Series	$ 10.93
Grant date	6/14/2007
Number of options granted	150,000
Strike Price	$ 10.93
Market price - date of grant	$ 10.93
Total compensation at grant date	1,058,361
Compensation recognized vesting in 2007	529,181
Amount remaining to be recognized in compensation	529,181
Weighted average fair value at grant date	7.06
Assumptions	
Expected life (months)	75
Risk-free rate of return	4.93 %
Expected volatility	76.275%
Expected dividend yield	0.00 %
Expected forfeiture rate	9.10 %

Options Granted in 2006 Fair Values, Assumptions, and Impact on Net Income

Series	$ 11.97	$ 9.15	$ 6.83	Weighted Average Fair Value
Grant date	4/17/2006	6/1/2006	12/4/2006	
Number of options granted(1)	205,000	150,000	175,000	530,000
Strike price	$ 11.97	$ 9.15	$ 6.83	
Market price - date of grant	$ 11.97	$ 9.15	$ 6.83	
Total compensation at grant date	1,622,494	906,090	754,606	3,283,189
Compensation recognized vesting In 2006	630,079	453,045	754,606	1,837,729
Amount remaining to be recognized in compensation	992,415	453,045	-	1,445,460
Weighted average fair value at grant date	$ 7.91	$ 6.04	$ 4.31	$ 6.19
Assumptions				
Expected life (months)	70.42	63.75	60.00	
Risk-free rate of return	4.93 %	5.05 %	5.20 %	
Expected volatility	73.75 %	74.45 %	75.06 %	
Expected dividend yield	0.00 %	0.00 %	0.00 %	
Expected forfeiture rate	2.80 %	0.00 %	2.80 %	

(1) The 11.97 Series had 193,000 options remaining at year end due to employee termination and forfeiture. Compensation recognized for 2006 was adjusted to reflect the forfeitures.

Stock compensation expenses will be recognized over a weighted average remaining life of 2.41 years.

Amount of Compensation Expense ($ in thousands)	2007 Grants	2006 Grants	Pre-2006 Grants	Total Compensation
2006	$ -	$ 1,838	$ 338	$ 2,176
2007	529	758	152	1,439
2008	529	306	120	955
2009		305	-	305
Total Stock Compensation Expense	$ 1,058	$ 3,207	$ 610	$ 4,875

No compensation cost was recognized for grants under the Option Plan prior to 2006 because the exercise price of the options granted to employees equaled or exceeded the market price of the stock on the date of the grant. Had the method prescribed by SFAS No. 123(r) been applied, the Company's net income available to common stockholders for the year ended December 31, 2005 would have been changed to the pro forma amount indicated below:

	$ in thousands 2005
Net income available for common stock-as reported	$ 4,782
Compensation expenses if the fair value method had been applied to the grants, net of taxes	(538)
Net income available for common stock-pro forma	$ 4,244
Net income per share-as reported	
Basic	$ 0.20
Diluted	$ 0.19
Net income available per share-pro forma	
Basic	$ 0.17
Diluted	$ 0.17

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in the pro-forma years 2005, dividend yield of 0%, expected volatility of 73.8% to 75.1%, and risk-free interest rates of 4.93% to 5.20%, and expected lives of two to six years based on the simplified-method calculation. The maximum term of each option is ten years.

The Company's policy for exercising options begins with the option holder submitting an "Exercise Notice" to the Investor Relations Officer ("IRO"). The IRO determines the option holder's eligibility and current employment status. The IRO then prepares the "Option Exercise Notification Form". Options holders at the "Named Executive" level must be approved to exercise their options by the Compensation Committee. Any required notice is then filed with the SEC. The options holder may then purchase shares at the exercise price.

The following table summarizes total aggregate stock option activity for the period December 31, 2004 through December 31, 2007:

	Vested & Exercisable Balance	Number of Shares Outstanding	Weighted Average Exercise Price
Balance at December 31, 2004		1,527,150	$ 2.10
Granted		425,000	3.91
Exercised		(493,019)	0.98
Canceled or expired		(21,164)	1.43
Balance at December 31, 2005	1,103,542	1,437,967	3.07
Granted		530,000	9.47
Exercised		(329,273)	2.22
Canceled or expired		(216,200)	6.33
Balance at December 31, 2006	1,072,294	1,422,494	5.16
Granted		150,000	10.93
Exercised		(244,306)	3.05
Canceled or expired		(21,688)	2.38
Balance at December 31, 2007	1,099,300	1,306,500	$ 6.26

The following table summarizes information concerning outstanding and exercisable Company common stock options at December 31, 2007.

Exercise Prices(1) (series)	Options Outstanding at December 31, 2007	Average Remaining Contractual Life	Options Fully-Vested And Exercisable at December 31, 2007	Un-Vested Options Balance at December 31, 2007
$ 0.96	53,450	2.8	53,450	-
$ 1.00	20,000	3.2	20,000	-
$ 1.25	60,000	2.0	60,000	-
$ 1.81	40,000	6.5	40,000	-
$ 1.87	20,000	5.3	20,000	-
$ 1.97	15,000	6.2	15,000	-
$ 2.05	85,050	6.2	85,050	-
$ 2.32	40,000	5.4	40,000	-
$ 2.39	40,000	7.1	20,000	20,000
$ 2.50	75,000	7.2	60,000	15,000
$ 3.75	150,000	7.5	150,000	-
$ 6.71	40,000	7.9	20,000	20,000
$ 6.83	175,000	8.9	175,000	-
$ 9.15	150,000	8.4	150,000	-
$ 11.97	193,000	8.3	115,800	77,200
$ 10.93	150,000	9.5	75,000	75,000
	1,306,500		1,099,300	207,200

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

Total intrinsic value of options outstanding at December 31, 2007 (000's)	$ 6,775
Total intrinsic value of options exercisable at December 31, 2007 (000's)	$ 6,463
Total intrinsic value of options outstanding at December 31, 2006 (000's)	$ 4,738
Total intrinsic value of options exercisable at December 31, 2006 (000's)	$ 4,031
Total intrinsic value of options exercised during 2006 (000's)	$ 2,466
Total intrinsic value of options outstanding at December 31, 2005 (000's)	$ 7,147
Total intrinsic value of options exercisable at December 31, 2005 (000's)	$ 5,485
Total intrinsic value of options exercised during 2005 (000's)	$ 1,755
Total intrinsic value of options exercised during 2007 (000's)	$ 1,605
Available for grant at December 31, 2007	622,494
Weighted-average fair value of options at grant date, granted in 2005	$ 3.52
Weighted-average remaining life of all options outstanding at December 31, 2007	7.4 years

NOTE 12 - RELATED-PARTY TRANSACTIONS

On May 25, 2006, the Company, through its wholly-owned subsidiary ENGlobal Corporate Services, Inc., purchased a one-third partnership interest in PEI Investments, A Texas Joint Venture ("PEI"), from Michael L. Burrow, the Company's former President and CEO, and another one-third interest from a stockholder who owns less than 1% of the Company's common stock. The partnership interests were purchased for a total of $69,000. The remaining one-third interest was already held by the Company through its wholly-owned subsidiary, EEI. PEI owns the land on which our Beaumont, Texas office building, destroyed

by Hurricane Rita in September 2005, was located. The remains of the building were razed in July 2006. In September 2006, the Company acquired approximately 1.2 acres immediately adjacent to the former facility. The Company has completed development of plans for a new facility utilizing both parcels of land. The Company plans to enter into an agreement whereby it will sell the property and enter into a long-term lease with a third party who will construct the new facility. Further discussion is included in Footnote 20.

NOTE 13 - CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

The Company provides engineering and fabricated systems and services primarily to major integrated oil and gas companies throughout the world. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. Management reviews all trade receivable balances that exceed 30 days past due and based on its assessment of current credit-worthiness, estimate what portion, if any seems doubtful for collection. A valuation allowance that reflects management's best estimate of the amounts that will not be collected is established.

For the years ended December 31, 2007, 2006 and 2005, the Company had sales totaling approximately $33.0 million, $42.1 million and $84.8 million attributable to a single customer. In 2007 approximately 11% of our revenue was from one customer, approximately 12% was from another customer and another 11% was from a third customer. During 2006 and 2005, a single customer represented approximately 15% and 35% of total sales, respectively.

As of December 31, 2007, the Company had amounts due from 2 customers totaling $7.5 million with 1 customer equaling 10% of trade receivables. As of December 31, 2006, the Company had amounts due from 2 customers totaling $11.7 million with 1 customer exceeding 10% of trade receivables.

NOTE 14 - RETIREMENT OF TREASURY SHARES AND REDEEMABLE PREFERRED STOCK

Treasury stock was recorded on our books at $592,231. Upon retirement/cancellation of treasury shares in 2006, our Paid in Capital account was reduced by $592,231 and the treasury stock account was credited to reduce it to zero.

ENGlobal had a class of preferred stock with 5,000,000 shares originally authorized for issuance. This class of preferred stock was eliminated by a vote of the Company's stockholders in June 2006.

A new class of capital stock of the Company, consisting of 2,000,000 shares of Preferred Stock, par value $0.001 per share (the "Preferred Stock") was approved by the Company's stockholders at its June 2006 meeting. 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. The designations, preferences, limitations, restrictions and rights of any series of Preferred Stock designated by the Board of Directors will be set forth in an amendment to the Amended and Restated Articles of Incorporation ("Amended Articles") filed in accordance with Nevada law.

Blank Check Authority

The Preferred Stock is referred to as a "blank check" because the Board of Directors, in its discretion, will be authorized to provide for the issuance of all or any shares of the stock in one or more classes or series, specifying the terms of the shares, subject to the limitations of Nevada law. The Board of Directors would make a determination as to whether to approve the terms and issuance of any shares of Preferred Stock based on its judgment as to the best interests of the Company and its stockholders.

The reason for authorizing blank check Preferred Stock is to provide the Company with flexibility in connection with its future growth. Although the Company presently has no intentions of issuing shares of Preferred Stock, opportunities may arise that require the Board to act quickly, such as businesses becoming available for acquisition or favorable market conditions for the sale of a particular type of Preferred Stock. The Board believes that the authorization to issue Preferred Stock is advisable in order to enhance the Company's ability to respond to these and similar opportunities.

NOTE 15 - FEDERAL INCOME TAXES

The components of income tax expense (benefit) from continuing operations for the years ended December 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
	(in thousands)		
Current			
Federal	$ 8,619	$ 1,047	$ 3,016
Foreign	42	53	-
State	1,510	403	413
	10,172	1,503	3,429
Deferred			
Federal	(1,890)	(1,917)	(313)
Foreign	4	(38)	-
State	(76)	(361)	-
	(1,962)	(2,316)	(313)
Total tax provision	$ 8,209	$ (813)	$ 3,116

The components of the deferred tax asset (liability) consisted of the following at December 31, 2007 and 2006:

	2007	2006
	(in thousands)	
Deferred tax asset		
Allowance for doubtful accounts	$ 1,721	$ 255
Net operating loss carry-forward	763	665
Accruals not yet deductible for tax purposes	2,082	2,636
Stock options	1,007	235
Alternative minimum tax credit carry-forward	-	-
Deferred tax assets	5,573	3,791
Less: Valuation allowance	(516)	308
Deferred tax assets	5,057	3,483
Deferred tax liabilities		
Depreciation	(398)	(403)
Prepaid expenses	(641)	(477)
Goodwill	(860)	(1,407)
Deferred tax liability	(1,899)	(2,287)
Deferred tax asset, net	$ 3,158	$ 1,196

NOTE 15 - FEDERAL INCOME TAXES (Continued)

The following is a reconciliation of expected to actual income tax expense from continuing operations:

	2007	2006	2005
		(in thousands)	
Federal income tax expense at 35% for 2007, 34% for 2006 and 2005, respectively	$ 7,235	$ (1,462)	$ 2,685
State and foreign taxes, net of tax effect	935	(16)	273
Nondeductible expenses	106	102	9
Stock compensation expense	(268)	530	-
Valuation allowance	208	308	-
Prior year correction	-	(169)	-
Other, net	(7)	(106)	149
Total tax provision	$ 8,209	$ (813)	$ 3,116

The Company had a federal net operating loss carryforward at December 31, 2007 of approximately $705,000. Earlier utilization of the net operating loss on the Company's 2002 and 2003 consolidated tax returns was disallowed by the IRS which resulted in a reinstated carry-forward that will be available for utilization in 2008 through 2010.

The Company also has a foreign net operating loss carryforward at December 31, 2007 of approximately $1,290,000. This loss is available for utilization in 2008 through 2017, however, application of the net operating loss is restricted to the income of ENGlobal Canada. The Company is unsure of its ability to fully utilize the foreign net operating loss. Therefore, the Company has set up a valuation allowance of $516,000 against the entire net operating loss.

On July 13, 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, and Related Implementation Issues," which provides guidance on the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions that a company has taken or expects to take on a tax return. Under FIN 48, financial statements should reflect expected future tax consequences of such positions presuming the taxing authorities have full knowledge of the position and all relevant facts. This interpretation also revises the disclosure requirements and was adopted by the Company effective as of January 1, 2007. There are currently no material tax positions identified as uncertain for the Company or its' subsidiaries.

We recognize interest related to uncertain tax positions in interest expense and penalties related to uncertain tax positions in governmental penalties. As of December 31, 2007, we have not recognized interest or penalties relating to any uncertain tax positions.

The Company is subject to federal and state income tax audits from time to time that could result in proposed assessments. The Company cannot predict with certainty the timing of such audits, how these audits would be resolved and whether the Company would be required to make additional tax payments, which may or may not include penalties and interest. The Company was subject to a federal tax audit for the years 2002 and 2003. That examination has been closed.

During 2007, the Company's subsidiary, WRC Corporation was subject to an audit for the pre-acquisition fiscal year ended September 30, 2005. There was no material adjustment as a result of this audit, and it has been closed. The Company does not have any other examination on-going by the Internal Revenue Service, and the open years subject to audit are currently tax years 2004-2006. For most states where the Company conducts business, the Company is subject to examination for the preceding three to six years.

NOTE 16 - ACQUISITIONS

There were no new acquisition transactions during the year ended December 31, 2007.

Assets acquired and liabilities assumed by the Company in acquisitions have been recorded on the Company's Consolidated Balance Sheets as of the respective acquisition dates based upon their estimated fair values at such dates. The results of operations of our acquisitions have been included in the Company's Consolidated Statement of Operations since the respective dates of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed has been allocated to goodwill.

During 2006, the Company acquired Denver-based WRC Corporation ("WRC") and certain assets of Analyzer Technology International, Inc. ("ATI"), and accounted for the acquisitions using the purchase method of accounting for business combinations. In both cases, the purchase price and costs associated with the acquisitions exceeded the preliminary estimated fair value of net assets acquired by approximately $5.6 million and $1.8 million respectively, which was preliminarily assigned to goodwill. During early 2007, the Company completed the valuation of the intangible assets acquired in both the WRC and the ATI transactions and pursuant to those valuations has re-assigned approximately $4.0 million and $1.8 million respectively from goodwill to non-compete agreements and customer relationships with such assets being amortized over 5-6 years.

The Company purchased WRC and its wholly-owned subsidiary, WRC Canada ("WRCC") on May 25, 2006. The results of WRC's operations have been included in the consolidated financial statements since that date. WRC, now known as ENGlobal Land, Inc. ("ELI"), provides integrated land management, engineering, and related services to the pipeline, power, and transportation industries, among others. ELI is a wholly-owned subsidiary of ENGlobal and now serves as the Company's provider of land management, environmental compliance and governmental regulatory services. The Company expects to utilize the former WRC's Denver facility as a beachhead for expansion of the Company's services into the Rocky Mountain and Western U.S. regions, as well as into Western Canada.

In the twelve months prior to acquisition, WRC had revenue exceeding $20 million and had approximately 200 employees. ENGlobal purchased all of the outstanding capital stock of WRC in exchange for a consideration package of $10.1 million. Components of the package were the payment of $4.3 million of debt on behalf of WRC, which included $50,000 in long-term debt assumption, $2 million cash, a promissory note of $2.4 million, payable over 4 years, bearing an interest rate of 5%, and 175,000 shares of ENGlobal common stock, valued at $1.4 million. The $8 market value of the 175,000 shares of ENGlobal common stock was determined based on the average closing market price of ENGlobal's common shares over the 3-day period before and after the terms of the acquisition were agreed to and announced.

The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date of acquisition.

WRC and WRCC
Acquisition Summary
At May 25, 2006 (Revised)
$ in thousands

Current assets	$ 4,292
Property, plant and equipment	208
Intangible assets	
Customer relationships	2,767
Non-compete agreements	656
Goodwill	3,924
Total assets acquired	$11,847
Tax liabilities	$ 1,747
Current liabilities	4,250
Long-term debt	50
Total liabilities assumed	$ 6,047
Net assets acquired	$ 5,800

The Company engaged Herrera Partners to perform a third-party valuation of the WRC acqusition. A total of $7.3 million was determined attributable to acquired intangible assets. Of this amount, $2.8 million was assigned to customer relationships and $0.7 million was assigned to non-compete agreements. While each category was examined independently in determining the appropriate amortization period, it was determined that each category should be amortized over 5.6 years, from closing date to December 31, 2011. This valuation has been revised from the date of acquisition as additional liabilities became known.

Goodwill from this transaction was estimated to be $3.9 million and is assigned to the WRC subsidiary.

On October 6, 2006, the Company, through its wholly-owned subsidiary, ENGlobal Construction Resources, Inc. ("ECR"), acquired certain assets of Watco Management, Inc. ("Watco"), a Houston-based business providing construction management, turnaround management, asset management, and project commissioning and start-up services, and related services for projects and facilities located in process plants. The addition of Watco will provide ECR with opportunities to expand its current services to existing Watco clients in addition to a complementary business allowing expansion of current services to both existing and future clients. The aggregate purchase price was $1.0 million, including $500,000 in cash and an unsecured promissory note in the principal amount of $500,000 payable in four equal annual installments, bearing interest at the rate of 4% per annum. The estimated fair values of the acquired assets include approximately $800,000 in intellectual property, $52,000 in fixed assets and $148,000 in goodwill. The Company is in the process of obtaining third-party valuations of the intangible assets; thus the allocation of the purchase price is subject to adjustment.

In January 2006, one of the Company's subsidiaries, ENGlobal Systems, Inc. ("ESI") acquired certain assets of Analyzer Technology International, Inc. ("ATI"), a Houston-based analyzer systems provider of online process analyzer systems. ATI relocated its operation to ESI's Houston facility, which the Company expects will enable ESI's clients to perform a more efficient factory adaptable test by temporarily connecting both control and analyzer systems onsite prior to delivery. The addition of ATI will provide ESI with a greater presence in the process anlayzer sector, especially for larger downstream opportunities of foreign grassroots projects. The aggregate purchase price was $1.75 million, including $750,000 in cash and an unsecured promissory note in the principal amount of $1,000,000 payable monthly over 36 months, bearing interest at the rate of 6% per annum. In addition to the purchase price agreed

to at closing, there are also payments contingent on the performance of projects that were a part of ATI's backlog at closing. The earnout amount calculated at December 31, 2006 was $287,958. The estimated fair values of the acquired assets include intellectual property and existing backlog and have been entirely recognized in a non-compete agreement to be amortized. The non-compete agreements are expected to be amortized based on the earnout amounts over a period of six years.

NOTE 17 - SALE OF ASSET

On June 28, 2007, the Company completed the sale of a building in Baton Rouge, Louisiana. The Company recognized a gain of $483,483 on the transaction. Total sales price was $1.85 million. The Company received cash of $370,000 and accepted a Note Receivable for the remaining $1.48 million. The note accrues interest initially at 8.5% and is payable on or before June 29, 2012. The interest changes annually to NY prime plus .25%.

NOTE 18 - SEGMENT INFORMATION

During the first three quarters of 2007, the Company managed and reported through two business segments: Engineering and Systems. In the fourth quarter of 2007, due to the past and anticipated growth in certain areas of our business and change in leadership during 2007, we reevaluated our reportable segments under Financial Accounting Standards Board Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." As a result, we have elected to realign both management and reporting into four business segments: Engineering, Construction, Automation and Land.

The Engineering segment provides consulting services relating to the development, management and execution of projects requiring professional engineering and related project services. Services provided by the Engineering segment include feasibility studies, engineering, design, procurement and construction management. The Construction segment provides construction management personnel and services in the areas of inspection, mechanical integrity, vendor and turnaround surveillance, field support, construction, quality assurance and plant asset management. The Automation segment provides services related to the design, fabrication, and implementation of process distributed control and analyzer systems, advanced automation, and information technology projects. The Land segment provides land management, right-of-way, environmental compliance, and governmental regulatory compliance services primarily to the pipeline, utility and telecom companies and other owner/operators of infrastructure facilities throughout the United States and Canada.

Sales, operating income, identifiable assets, capital expenditures and depreciation for each segment are set forth in the following table. The amount in the Corporate segment includes those activities that are not allocated to the operating segments and include costs related to business development, executive functions, finance, accounting, safety, human resources and information technology that are not specifically identifiable with the segments. The inter-company elimination column includes the amount of administrative costs allocated to the segments. The Corporate function supports all business segments and therefore cannot be specifically assigned to any specific segment. A significant portion of Corporate costs are allocated to each segment based on each segment's revenue and subsequently eliminated in consolidation.

Financial information about geographic areas

Revenue from the Company's non-U.S. operations is currently not material. Long-lived assets located in Canada are currently not material.

Segment information for 2007, 2006 and 2005 was as follows:

Due to the restructuring of two segments to four, amounts will tie in total to prior reporting; however, individual segments will vary from prior reports.

	Engineering	Construction	Automation	Land	Corporate	Total
			(in thousands)			
2007						
Net sales from external customers	$ 221,787	$ 73,210	$ 37,766	$ 30,464	$ -	$ 363,227
Operating profit (loss)	28,301	7,133	(58)	2,105	(14,638)	22,843
Depreciation and amortization	1,910	436	1,186	640	801	4,973
Tangible assets	50,077	14,928	15,393	8,775	6,379	95,552
Goodwill	13,187	2,116	699	3,924	-	19,926
Other intangible assets	1	182	1,376	2,397	-	3,956
Capital expenditures	1,123	24	420	7	621	2,195
2006						
Net sales from external customers	$ 215,306	$ 36,128	$ 34,888	$ 16,768	$ -	$ 303,090
Operating profit (loss)	6,195	1,579	579	716	(12,689)	(3,620)
Depreciation and amortization	1,684	257	483	457	512	3,393
Tangible assets	44,952	9,488	15,956	4,639	6,563	81,598
Goodwill	13,040	1,515	1,410	3,237	-	18,923
Other intangible assets	3	284	1,475	3,664	-	5,705
Capital expenditures	1,948	1,122	384	167	840	4,461
2005						
Net sales from external customers	$ 193,376	$ 21,898	$ 18,311	$ -	$ -	$ 233,585
Operating profit (loss)*	16,814	1,288	(41)	-	(9,477)	8,584
Depreciation and amortization	1,055	197	106	-	479	1,837
Tangible assets	47,123	4,742	5,783	-	2,419	60,067
Goodwill	12,916	1,408	1,131	-	-	15,455
Other intangible assets	8	386	20	-	-	414
Capital expenditures	2,418	43	280	-	489	3,230

* The total operating profit includes (2) for the discontinued manufacturing segment for 2005. This is the only activity for that closed segment so it is not disclosed as a separate column in the table above.

Net Sales in our Engineering segment increased 3.0% to $221,787 in 2007 from $215,306 in 2006. The increase for 2006 was 11.3% from $193,376 in 2005.

Dollars in Thousands	2007		2006		2005	
Total Engineering revenue:						
Detail-design	132,210	59.6%	111,503	51.8%	89,904	46.4%
Field services	56,379	25.4%	53,921	25.0%	34,312	17.8%
Procurement services	16,011	7.2%	19,271	9.0%	59,527	30.8%
Fixed-price	17,187	7.8%	30,611	14.2%	9,633	5.0%
Total Engineering revenue:	$ 221,787	100.0%	$ 215,306	100.0%	$ 193,376	100.0%

The Construction segment contributed 20.2% of our total revenue for 2007, as its revenue increased $37.1 million, or 102.8%, from $36.1 million in 2006 to $73.2 million in 2007. The revenue in 2006 for this segment increased 64.8%, or $14.2 million, from $21.9 million in 2005.

Dollars in Thousands	2007		2006		2005	
Total Construction revenue:						
Pipeline	60,430	82.5%	28,987	80.2%	16,639	76.0%
Non-pipeline	12,780	17.5%	7,141	19.8%	5,259	24.0%
Total Construction revenue:	$ 73,210	100.0%	$ 36,128	100.0%	$ 21,898	100.0%

The Automation segment contributed 10.4% of our total revenue for the year, as its revenue increased $2.9 million, or 8.3%, from $34.9 million in 2006 to $37.8 million in 2007. This segment's revenue also increased 90.7% in 2006, or $16.6 million, from $18.3 million in 2005.

Dollars in Thousands	2007		2006		2005	
Total Automation revenue:						
Fabrication	22,814	60.4%	26,032	74.6%	14,159	77.3%
Non-fabrication	14,952	39.6%	8,856	25.4%	4,152	22.7%
Total Automation revenue:	$ 37,766	100.0%	$ 34,888	100.0%	$ 18,311	100.0%

Tangible assets include cash, accounts receivable, costs in excess of billings, prepaid expenses, income tax receivables, deferred tax assets, property and equipment and deferred financing. Goodwill, other intangible assets, investments in subsidiaries, and inter-company accounts receivables and payables are excluded.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company has employment agreements with certain of its executive officers and certain other officers, the terms of which expire in January 2009. Such agreements provide for minimum salary levels. If employment is terminated for any reason other than 1) termination for cause, 2) voluntary resignation, or 3) employee's death, the Company is obligated to provide a severance benefit equal to six months of the employee's salary, and, at its option, an additional six months at 50% to 100% of the employee's salary in exchange for an extension of the non-compete. These agreements are renewable for one year at the Company's option.

Litigation

From time to time, one or more of ENGlobal Corporation's individual subsidiary business entities are 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, and 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 reserved for, or are covered by insurance, such that, if determined adversely to those entities individually or in the aggregate, they would not have a material adverse effect on our results of operations or financial position.

Insurance

The Company carries a broad range of insurance coverage, including general and business automobile liability, commercial property, professional errors and omissions, workers' compensation insurance and a general umbrella policy. The Company is not aware of any claims in excess of insurance recoveries. ENGlobal is partially self-funded for health insurance claims. Provisions for expected future payments are accrued based on the Company's experience. Specific stop loss levels provide protection for the Company with $175,000 per occurrence and approximately $13.9 million in aggregate in each policy year being covered by a separate insurance policy.

NOTE 20 - SUBSEQUENT EVENTS

In June 2007, the Company received comments from the SEC staff related to our Annual Report on Form 10-K/A and interim reports. On March 12, 2008, the Company received notification from the SEC that all issues have been cleared.

On February 28, 2008, ENGlobal entered into a lease agreement with a third party who will construct a new facility in Beaumont, Texas. This agreement has a ten-year term, but the lease term will not commence until the sale of the property to the developer/lessor has been completed. This property was the site of a number of ENGlobal departments in 2005, when the building was destroyed by Hurricane Rita. See also Note 12 - Related Party Transactions.

NOTE 21 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	For the Quarters Ended - 2007							
	March		June		September		December	
	(in thousands, except per share amounts)							
Revenue per segment								
Engineering	$ 51,449	63.0%	$ 56,966	63.6%	$ 61,680	63.7%	$ 51,692	54.3%
Construction	13,785	16.9%	15,988	17.6%	18,999	19.6%	24,438	25.7%
Automation	9,538	11.7%	9,518	10.6%	8,526	8.9%	10,184	10.7%
Land	6,887	8.4%	7,104	8.2%	7,620	7.8%	8,853	9.3%
Total	$ 81,659	100.0%	$ 89,576	100.0%	$ 96,825	100.0%	$ 95,167	100.0%
Gross profit per segment								
Engineering	$ 9,164	17.8%	$ 9,584	16.8%	$ 10,801	17.6%	$ 10,416	20.2%
Construction	2,082	15.1%	2,646	16.6%	3,678	19.4%	1,319	5.4%
Automation	781	8.2%	1,112	11.7%	774	9.1%	717	7.0%
Land	1,250	18.2%	877	12.4%	1,086	14.3%	1,330	15.0%
Total	$ 13,277	16.3%	$ 14,219	15.9%	$ 16,339	16.9%	$ 13,782	14.5%
Net income	$ 3,155		$ 3,913		$ 3,975		$ 1,421	
Earnings per share - basic	$ 0.12		$ 0.15		$ 0.15		$ 0.05	
Earnings per share - diluted	$ 0.12		$ 0.14		$ 0.14		$ 0.05	

	For the Quarters Ended - 2006							
	March		June		September		December	
	(in thousands, except per share amounts)							
Revenue per segment								
Engineering	$ 54,358	81.6%	$ 57,127	76.1%	$ 57,434	69.7%	$ 46,387	58.8 %
Construction	6,166	9.3%	7,326	9.8%	9,270	11.3%	13,366	17.0 %
Automation	6,103	9.1%	7,948	10.6%	8,494	10.3%	12,343	15.7 %
Land	0	0.0%	2,665	3.5%	7,306	8.7%	6,797	8.5 %
Total	$ 66,627	100.0%	$ 75,066	100.0%	$ 82,504	100.0%	$ 78,893	100.0 %
Gross profit per segment								
Engineering	$ 6,570	80.0%	$ 8,535	15.0%	$ 1,645	2.9%	$ (1,089)	(2.4)%
Construction	745	9.1%	704	9.6%	1,095	11.9%	1,181	8.9 %
Automation	907	10.9%	1,082	13.7%	839	9.9%	1,660	13.5 %
Land	0	0.0%	407	15.3%	970	13.3%	1,013	14.9 %
Total	$ 8,222	12.4%	$ 10,728	14.3%	$ 4,549	5.6%	$ 2,765	3.5 %
Net income (loss)	$ 1,234		$ 2,331		$ (1,570)		$ (5,481)	
Earnings per share - basic	$ 0.05		$ 0.09		$ (0.06)		$ (0.21)	
Earnings per share - diluted	$ 0.05		$ 0.09		$ (0.06)		$ (0.21)	

Schedule II

ENGlobal Corporation

VALUATION AND QUALIFYING ACCOUNTS

Description	Balance - Beginning of Period	Additions	Deductions- Write offs	Balance - End of Period
	($ in thousands)			
Allowance for doubtful accounts				
For year ended December 31, 2007	$ 670	$ 840	$ (105)	$1,405
For year ended December 31, 2006	$ 503	$ 251	$ (84)	$ 670
For year ended December 31, 2005	$ 476	$ 53	$ (26)	$ 503
Reserve on current notes receivable for the year ended December 31, 2007	$ -	$ 120	$ -	$ 120
Reserve on long-term notes receivable for the year ended December 31, 2007	$ -	$3,150	$ -	$3,150

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

ITEM 9A. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

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

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2007, as required by Rule 13a-15 of the Exchange Act. As described below, under "Management's Report on Internal Control Over Financial Reporting," a material weakness was identified in our internal control over financial reporting as of December 31, 2007. Based on the evaluation described above, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2007, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

In our Form 10-K for the year ended December 31, 2006, we disclosed certain material weaknesses in internal control over financial reporting. Several of those material weaknesses were remediated during the three months ended December 31, 2007. Below is a list of the remediation activities that were completed during the quarter to remediate those material weaknesses:

1. Deficiencies in the Company's Control Environment.

Our control environment did not sufficiently promote effective internal control over financial reporting throughout the organization. Specifically, we had a shortage of support and resources in our accounting department, which resulted in insufficient: (i) documentation and communication of our accounting policies and procedures; and (ii) internal audit processes of our accounting policies and procedures as of December 31, 2006.

A. Actions Taken to Remediate the Weakness

- We hired additional staff in various accounting functions.
- We provided several supplementary training courses to our Accounting Managers, Staff Accounts and clerical personnel on topics including: the month-end financial close process, The Sarbanes-Oxley Act of 2002, payroll, accounts payable, accounts receivable, and billings training for our financial accounting system, and general accounting processes and procedures.
- We retained a third-party tax consultant to frequently assess tax requirements, prepare filings, and assist in the preparation of our tax provision in accordance with SFAS 109.
- We restructured our back office departments by appointing senior level personnel to provide additional oversight.
- We purchased various continuing education subscriptions for back office departments.
- We engaged a third-party public accounting firm to perform independent tests of controls and assist us in our evaluation of internal control over financial reporting.
- We modified and strengthened our existing internal Management's Discussion & Analysis (MD&A) process to include self-assessment certifications regarding disclosure controls and procedures and internal controls over financial reporting.
- We hired a Vice President, Project Controls to help align our project reporting policies and procedures with our operational decisions and our financial reporting.
- We hired a Vice President, Quality Assurance/Quality Control to help align our project reporting policies and procedures with our operational decisions and our financial reporting.
- We created a monthly status report procedure as a part of the month-end financial close process.

B. Status of Material Weakness

Although significant progress has been made in remediating this material weakness as described above, this weakness was not fully remediated as of December 31, 2007, due to a lack of sufficient knowledge and expertise in financial reporting to adequately handle complex or non-routine accounting issues. This issue has been identified as a material weakness in our evaluation of internal control over financial reporting as of December 31, 2007, as described below in "Management's Report on Internal Control over Financial Reporting."

2. Deficiencies in the Company's Information Technology Access Controls.

We did not maintain effective controls sufficient to prevent access by unauthorized personnel to end-user spreadsheets and other information technology programs and systems as of December 31, 2006.

A. Actions Taken to Remediate the Weakness

We implemented the use of a password for access to any spreadsheets sent outside of the Accounting Department and established additional password controls specific to the Chief Financial Officer and Controller.

B. Status of Material Weakness

The above material weakness was remediated as of December 31, 2007.

3. Deficiencies in the Company's Accounting System Controls.

We did not effectively and accurately close the general ledger in a timely manner and we did not provide complete and accurate disclosure in our notes to financial statements as of December 31, 2006, as required by generally accepted accounting principles.

A. Actions Taken to Remediate the Weakness

In addition to the actions listed above under "Deficiencies in the Company's Control Environment," we took the following actions:

- We engaged various third-party consultants to assist us with specific technical accounting issues to help ensure that our disclosures are complete and accurate in accordance with generally accepted accounting principles.
- We implemented quarterly and annual disclosure checklists that are completed prior to the completion of our quarterly financial statements.

B. Status of Material Weakness

Although significant progress has been made in remediating this material weakness as described above, this weakness was not fully remediated as of December 31, 2007, due to a lack of sufficient knowledge and expertise in financial reporting to adequately handle complex or non-routine accounting issues. This issue has been identified as a material weakness in our evaluation of internal control over financial reporting as of December 31, 2007, as described below in "Management's Report on Internal Control over Financial Reporting."

4. Deficiencies in the Company's Controls Regarding Purchases and Expenditures.

We did not maintain effective controls over the tracking of our commitments and actual expenditures with third-party subsidiaries on a timely basis as of December 31, 2006.

A. Actions Taken to Remediate the Weakness

- We implemented a commitments and contingencies questionnaire based on the criteria described in SFAS 5, "Accounting for Contingencies," that is completed as part of our quarterly internal MD&A process and that is provided to the Chief Executive Officer and Chief Financial Officer prior to completion of our periodic reports.
- We have reinforced the purchase order process when making expenditures across the organization.
- We have updated and reinforced our expenditure approval authority matrix.
- We have incorporated into our monthly project review process a review of project purchase commitments.

B. Status of Material Weakness

The above material weakness was remediated as of December 31, 2007.

5. Deficiencies in the Company's Controls Regarding Fixed-Price Contract Information.

We did not maintain effective controls over the complete, accurate, and timely processing of information relating to the estimated cost of fixed-price contracts as of December 31, 2006.

A. Actions Taken to Remediate the Weakness

- We added Fixed-Price Status Reports that are provided monthly as a part of our month-end financial close process.
- Our Automation segment added a monthly project review to discuss the Fixed-Price Status Reports.
- We issued guidance and procedures that address the requirements, standards and responsibilities for estimating and reporting project cost and schedules, including trending and forecasting required costs.
- Our estimating department reinforced relationships with other execution centers, which perform independent assessments of estimates prior to formal issuance.
- We established new standard project cost status reports to identify contract change order information and cost requirements and highlight man hour and cost variances, cost savings and current profitability of each project over $1 million in the Engineering segment (and soon to be implemented throughout the organization).
- We incorporated a request for information on fixed-price projects over $500,000 in project value from the heads of our segments and corporate functions as part of our quarterly internal MD&A process, which is provided to the Chief Executive Officer and Chief Financial Officer prior to completion of our periodic reports.

B. Status of Material Weakness

The above material weakness was remediated as of December 31, 2007.

6. Deficiencies in the Company's Revenue Recognition Controls.

We did not maintain effective policies and procedures relating to revenue recognition of fixed-price contracts as of December 31, 2006, which accounted for approximately 11% of the Company's revenues in 2006.

A. Actions Taken to Remediate the Weakness

See "Deficiencies in the Company's Controls Regarding Fixed-Price Contract Information" listed above.

B. Status of Material Weakness

The above material weakness was remediated as of December 31, 2007.

7. Deficiencies in the Company's Controls over Income Taxes.

We did not maintain sufficient internal controls to ensure that amounts provided for in our financial statements for income taxes accurately reflected our income tax position as of December 31, 2006.

A. Actions Taken to Remediate the Weakness

See "Deficiencies in the Company's Control Environment" listed above.

B. Status of Material Weakness

The above material weakness was remediated as of December 31, 2007.

b) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as that term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with generally accepted accounting principles ("GAAP"). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail,

accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design safeguards into the process to reduce, although not eliminate, this risk. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

In order to evaluate the effectiveness of our internal control over financial reporting as of December 31, 2007, as required by Section 404 of the Sarbanes-Oxley Act of 2002, our management conducted an assessment, including testing, based on the criteria set forth in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected. In assessing the effectiveness of our internal control over financial reporting, management identified the following material weakness in internal control over financial reporting as of December 31, 2007:

- The Company lacks sufficient knowledge and expertise in financial reporting to adequately handle complex or non-routine accounting issues, resulting in the following:
  - Failure in a timely manner to properly evaluate goodwill for potential impairment in accordance with SFAS 142, "Goodwill and Other Intangible Assets."
  - Difficulty in obtaining timely resolution of SEC comments related to the above item, causing a delay in the Company's period-end closing process for its 2007 Form 10-K.
  - Failure to effectively utilize third-party specialists in a timely manner to assist with complex or non-routine accounting issues.

Based on the material weaknesses described above and the criteria set forth by the COSO Framework, we have concluded that our internal control over financial reporting at December 31, 2007, was not effective.

The Company's independent registered public accounting firm, Hein & Associates, has issued the following attestation report on the Company's internal control over financial reporting.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Items 401, 405, 406, and 407(c)(3), (d)(4), and (d)(5) of Regulation S-K will appear under the captions "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance" in our 2008 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 10, the 2008 Proxy Statement is incorporated herein by this reference.

We have adopted a written code of conduct that applies to our directors, officers, and employees. In addition, we have a code of ethics specific for our chief executive officer, chief financial officer, and senior accounting officers or persons performing similar functions. Both codes can be found on our web site, which is located at www.englobal.com, and are also exhibits to this report. We intend to make all required disclosures concerning any amendments to, or waivers from, our code of ethics on our web site.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 and paragraphs (e)(4) and (e)(5) of Item 407 of Regulation S-K will appear under the captions "Director Compensation" and "Executive Compensation Tables" including "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" in our 2008 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 11, the 2008 Proxy Statement is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Items 201(d) and 403 of Regulation S-K will appear under the headings "Beneficial Ownership of Common Stock" and "Securities Authorized for Issuance under Equity Compensation Plans" in our 2008 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 12, the 2008 Proxy Statement is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Items 404 and 407(a) of Regulation S-K will appear under the captions "Certain Relationships and Related Transactions" and "Director Independence" in our 2008 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 13, the 2008 Proxy Statement is incorporated herein by this reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

This information required by Item 9(e) of Schedule 14A will appear under the caption "Principal Auditor Fees and Services" in our 2008 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 14, the 2008 Proxy Statement is incorporated herein by this reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

(a)(1) Financial Statements

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

(a)(2) Schedules

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

(a)(3) Exhibits

EXHIBIT INDEX

Exhibit No.	Description	Incorporated by Reference to: Form or Schedule	Exhibit No.	Filing Date with SEC	SEC File Number
3.1	Restated Articles of Incorporation of ENGlobal Corporation	10-Q	3.1	11/14/02	001-14217
3.2	Amendment to the Restated Articles of Incorporation of the Registrant, filed with the Nevada Secretary of State on June 2, 2006	8-A12B	3.1	12/17/07	001-14217
*3.3	Amended and Restated Bylaws of Registrant dated November 6, 2007				
4.1	Specimen common stock certificate	S-3	4.1	10/31/05	333-129336
4.2	Registration Rights Agreement, dated as of September 29, 2005, by and among ENGlobal Corporation and Certain Investors named therein	S-3	4.2	10/31/05	333-129336
4.3	Securities Purchase Agreement, dated September 29, 2005, by and between Tontine Capital Partners, L.P. and Registrant	S-3	4.5	10/31/05	333-129336
4.4	Form of Subscription Agreement by and among Registrant, Michael L. Burrow, Alliance 2000, Ltd. and certain subscribers	S-3	4.6	10/31/05	333-129336
10.1	Option Pool Agreement between Industrial Data Systems Corporation and Alliance 2000, Ltd. dated December 21, 2001	10-KSB	10.48	4/1/02	001-14217
*10.2	Amended and Restated Alliance Stock Option Pool Agreement effective December 20, 2006				
10.3	Second Amended and Restated Alliance Stock Option Agreement dated effective December 20, 2006	8-K	10.2	5/23/07	001-14217
10.4	Second Amended and Restated Lease Agreement between Petrocon Engineering, Inc. and Corporate Property Associates 4dated February 28, 2002 (Exec I)	10-Q	10.63	8/12/02	001-14217
10.5	Guaranty and Suretyship Agreement between Industrial Data Systems Corporation and Corporate Property Associates 4 dated April 26, 2002 (Exec I)	10-Q	10.64	8/12/02	001-14217
*10.6	Amended and Restated 1998 Incentive Plan dated June 8, 2006				
*10.7	First Amendment to the Amended and Restated 1998 Incentive Plan dated June 14, 2007				
*10.8	Form of ENGlobal Corporation Incentive Stock Option Award Agreement of 1998 Incentive Plan				
10.9	Form of ENGlobal Corporation Non-qualified Stock Option Agreement Granted Outside of 1998 Incentive Plan	S-8	10.80	8/24/05	333-127803
10.10	Lease Agreement between Petrocon Engineering, Inc. and Phelan Investments on July 25, 2002 (Exec III)	10-Q	10.66	11/14/02	001-14217

Exhibit No.	Description	Incorporated by Reference to: Form or Schedule	Exhibit No.	Filing Date with SEC	SEC File Number
*10.11	Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated January 27, 2005				
10.12	First Amendment to the Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated April 5, 2005	10-K/A	10.26	03/29/07	001-14217
10.13	Second Amendment to the Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated June 15, 2005	10-K/A	10.27	03/29/07	001-14217
10.14	Third Amendment to the Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated December 28, 2005	10-K/A	10.28	03/29/07	001-14217
10.15	Fourth Amendment to the Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated February 27, 2006	10-K/A	10.29	03/29/07	001-14217
10.16	Fifth Amendment to the Lease Agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated July 28, 2006	10-K/A	10.30	03/29/07	001-14217
*10.17	Sixth Amendment to the Lease agreement between Oral Roberts University and ENGlobal Engineering, Inc. dated June 20, 2007				
10.18	Credit Agreement by and between Comerica Bank and ENGlobal Corporation and it subsidiaries dated August 8, 2007	10-Q	10.1	11/09/07	001-14217
10.19	Hand Note between South Louisiana Ethanol LLC and ENGlobal Engineering, Inc dated October 22, 2007	10-Q	10.2	11/09/07	001-14217
10.20	Collateral Mortgage between South Louisiana Ethanol LLC, and ENGlobal Engineering, Inc. dated August 26, 2007	10-Q	10.3	11/09/07	001-14217
10.21	Collateral Mortgage between South Louisiana Ethanol LLC and ENGlobal Engineering, Inc. dated August 31, 2007	10-Q	10.4	6/14/07	001-14217
10.22	Amended and Restated ENGlobal 401(k) Plan effective October 1, 2005	10-K/A	10.22	03/29/07	001-14217
10.23	First Amendment of the ENGlobal 401(k) Plan effective December 21, 2001	10-K/A	10.21	03/29/07	001-14217
10.24	Second Amendment to the ENGlobal 401(k) Plan effective April 1, 2006	10-K/A	10.23	03/29/07	001-14217
10.25	Third Amendment to the ENGlobal 401(k) Plan effective July 1, 2006	10-K/A	10.24	03/29/07	001-14217
10.26	Regulations Amendment to the ENGlobal 401(k) Plan effective January 1, 2006	10-K	10.21	03/16/07	001-14217

Exhibit No.	Description	Incorporated by Reference to: Form or Schedule	Exhibit No.	Filing Date with SEC	SEC File Number
10.27	ENGlobal Corporation Key Manager Incentive Plan effective January 1, 2007	8-K	10.43	04/10/07	001-14217
10.28	ENGlobal Corporation Key Executive Employment Agreement (W. Coskey) effective January 1, 2006	10-K/A	10.39	03/29/07	001-14217
10.29	ENGlobal Corporation Key Executive Employment Agreement (Robert Raiford) effective January 1, 2006	10-K/A	10.42	03/29/07	001-14217
10.30	Separation Agreement and Release between ENGlobal Corporation and Michael L. Burrow dated April 2, 2007	8-K	10.1	05/23/07	001-14217
*11.1	Statement Regarding Computation of Per Share Earnings is included as Note 2 to the Notes to Consolidated Financial Statements				
*14.1	ENGlobal Corporation Code of Business Conduct and Ethics dated August 6, 2007				
*14.2	ENGlobal Corporation Code of Ethics for Chief Executive Officer and Senior Financial Officers dated August 6, 2007				
*21.1	Subsidiaries of the Registrant				
*23.1	Consent of Hein & Associates LLP				
*31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14 or 15d-14				
*31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14 or 15d-14				
*32.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350				
*32.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(b) or 15d-14(b) and U.S.C. Section 1350				

* Filed herewith

SIGNATURES

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

ENGlobal CORPORATION

Dated: March 27, 2008

By: //s// William A Coskey
William A. Coskey, P.E.,
Chief Executive Officer, Director

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

By: //s// William A. Coskey
William A. Coskey, P.E.
Chief Executive Officer, Director

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

By: //s// Robert W. Raiford
Robert W. Raiford
Chief Financial Officer, Treasurer

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

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

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

Exhibit 3.3

AMENDED AND RESTATED BYLAWS
OF
ENGLOBAL CORPORATION

1. OFFICES

1.01 Registered Office. The registered office of the Corporation shall be located at 202 South Minnesota St., Carson City, County of Carson City, State of Nevada.

1.02 Other Offices. In addition to the registered office, other offices may also be maintained by such other place or places, either within or without the State of Nevada, as may be designated from time to time by the board of directors, where any and all business of the Corporation may be transacted, and where meetings of the shareholders and of the directors may be held with the same effect as though done or held at said registered office.

2. MEETING OF SHAREHOLDERS

2.01 Annual Meetings. The annual meeting of the shareholders of the Corporation shall be held each calendar year on such date and at such time as shall be designated from time to time by the board of directors and stated in the notice of the meeting or in a duly executed waiver of notice of such meeting, for the election of directors and for the transaction of such other business as may properly come before said meeting.

2.02 Notice of Annual Meetings. Unless notice is waived by the shareholders, the secretary shall mail, in the manner provided in Section 2.05 of these bylaws, or deliver a written or printed notice of each annual meeting to each share-holder of record, entitled to vote thereat, or may notify by telegram, at least ten and not more than sixty days before the date of such meeting.

2.03 Place of Meeting. The board of directors may designate any place either within or without the State of Nevada as the place of meeting for any annual meeting or for any special meeting called by the board of directors. A waiver of notice signed by all shareholders may designate any place either within or without the State of Nevada, as the place for the holding of such meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the registered office of the Corporation in the State of Nevada, except as otherwise called, the place of meeting shall be the registered office of the Corporation in the State of Nevada, except as otherwise provided in Section 2.06 of these bylaws, entitled "Meeting Without Notice."

2.04 Special Meetings. Special meetings of the shareholders shall be held at the registered office of the Corporation or at such other place as shall be specified or fixed in a notice thereof. Such meetings of the shareholders may be called at any time by the president or secretary, or by a majority of the board of directors then in office, and shall be called by the president with or without board approval on the written request of the holders of record of at least fifty percent (50%) of the number of shares of the Corporation then outstanding and entitled to vote, which written request shall state the object of such meeting.

2.05 Notice of Meetings. Unless waived by the shareholders, written or printed notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the president or the secretary to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his address as it appears on the records of the Corporation, with postage prepaid. Notwithstanding the above, if either notice of two consecutive annual meetings and notices of all meetings and actions taken by shareholder the interim or two payments of -dividends or interest on securities sent by first class mail during a twelve month period are returned as undeliverable, the giving of further notices is not required. In that event, any action taken without notice to the shareholder shall be deemed to have been taken with notice to the shareholder.

Any shareholder may at any time, by a duly signed statement in writing to that effect, waive any statutory or other notice of any meeting, whether such statement be signed before or after such meeting.

2.06 Meeting Without Notice. If all the shareholders shall meet at any time and place, either within or without the State of Nevada, and consent to the holding of the meeting at such time and place, such meeting shall be valid without call or notice and at such meeting any corporate action may be taken.

2.07 Quorum and Shareholder Acts. At all shareholders' meetings, the presence in person or by proxy of the holders of a majority of the outstanding stock entitled to vote shall be necessary to constitute a quorum for the transaction of business, but a lesser number may adjourn to some future time not less than seven nor more than twenty-one (21) days later, and the secretary shall thereupon give at least three days notice by mail to each share-holder entitled to vote who is absent from such meeting. Except where a higher percentage is expressly required by the bylaws or by law, an act of the holders of the majority of voting shares that are present at a meeting is an act of the shareholders.

2.08 Mode of Voting. At all meetings of the share-holders the voting may be voice vote, but any qualified voter may demand a stock vote whereupon such stock vote shall be taken by ballot, each of which shall state the name of the shareholder voting and the number of shares voted by him and, if such ballot be cast by proxy, it shall also state the name of such proxy; provided, however, that the mode of voting prescribed by statute for any particular case shall be in such case followed.

2.09 Proxies. At any meeting of the shareholders, any shareholder may be represented and vote by a proxy or proxies appointed by an instrument in writing. Execution may be accomplished by the signing of the writing by the shareholder or other persons authorized to sign on his behalf, or by causing the signature of the shareholder to be made by any reasonable means including, but not limited to, a facsimile signature. In the event any such instrument in writing shall designate two or more persons to act as proxies, a majority of such persons present at the meeting, or, if only one shall be present, then that one shall have and may exercise all of the powers conferred by such written instrument upon all of the persons so designated unless the instrument shall otherwise provide. Additionally, a shareholder may designate a proxy by transmission of a telegram or cablegram that sets forth sufficient information to determine that the transmission was authorized by the shareholder. No such proxy shall be valid after the expiration of six months from the date of its execution, unless coupled with an interest, or unless the person executing it

specified therein the length of time for which it is to continue in force, which in no case shall exceed seven years from the date of its execution. Subject to the above, any proxy duly executed is not revoked and continues in full force and effect until an instrument revoking it or a duly executed proxy bearing a later date is filed with the secretary of the Corporation. At no time shall any proxy be valid which shall be filed less than ten hours before the commencement of the meeting.

2.10 Voting Lists. The officer or agent in charge of the transfer books for shares of the Corporation shall make, at least three days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order with the number of shares held by each, which list for a period of two days prior to such meeting shall be kept on file at the registered office of the Corporation and shall be subject to inspection by any shareholder at any time during the whole time of the meeting. The original share ledger or transfer book, or duplicate thereof, kept in this state, shall be prima facie evidence as to who are the shareholders entitled to examine such list or share ledger or transfer book or to vote at any meeting of shareholders.

2.11 Closing Transfer Books or Fixing of Record Date. For the purpose of determining shareholders entitled to notice or to vote for any meeting of shareholders, the board of directors of the Corporation may provide that the stock transfer books be closed for a stated period but not to exceed in any case sixty (60) days before such determination. If the stock transfer books be closed for the purpose of determining shareholders entitled to notice of a meeting of shareholders, such books shall be closed for at least fifteen days immediately preceding such meeting. In lieu of closing the stock transfer books, the board of directors may fix, in advance, a date in any case to be not more than sixty (60) days, nor less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If the stock transfer books are not closed and no record date is fixed for determination of shareholders entitled to notice of a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date of which notice of the meeting is mailed or the date on which the resolution of the board of directors declaring such dividend is adopted, as the case may be, shall be the record date for such determinations of shareholders.

2.12 Voting of Shares. Subject to the provisions of Section 2.14, each outstanding share entitled to vote shall be entitled to one vote upon each matter submitted to vote at a meeting of shareholders.

2.13 Voting of Shares by Certain Holders. Shares standing in the name of another Corporation, domestic or foreign, may be voted by such officer, agent or proxy as the bylaws of such Corporation may prescribe, or, in the absence of such provisions, as the board of directors of such Corporation may determine.

Shares standing in the name of a deceased person may be voted by his administrator or executor, either in person or by proxy. Shares standing in the name of a guardian, conservator or trustee may be voted by such fiduciary either in person or by proxy, but no guardian, conservator, or trustee shall be entitled, as such fiduciary, to vote shares held by him without a transfer of such shares into his name.

Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority so to do be contained in an appropriate order of the court at which such receiver was appointed.

A shareholder whose shares are pledged shall be entitled to vote such shares until shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Shares of its own stock belonging to this Corporation shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding shares at any time, but shares of its own stock held by it in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding shares at any given time.

2.14 Election of Directors. Directors shall be elected by a majority vote. At each election of directors, every shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected and for whose election he has a right to vote. A shareholder does not have a right to cumulate his vote for any one director. A shareholder may only cast a vote for each director to be elected which does not exceed the number of shares owned by that shareholder. Directors of this Corporation shall not be elected otherwise.

2.15 Attendance by Conference Call. Shareholders may participate in a meeting of shareholders by means of a telephone conference or similar method of communication by which all persons participating in the meeting can hear each other. Attendance by this method shall constitute presence in person at the meeting.

3. DIRECTORS

3.01 General Powers. The board of directors shall have the control and general management of the affairs and business of the Corporation. Such directors shall in all cases act as a board, regularly convened, by a majority, and they may adopt such rules and regulations for the conduct of their meetings and the management of the Corporation, as they may deem proper, not inconsistent with these bylaws, the Articles of Incorporation and the laws of the State of Nevada. The board of directors shall further have the right to delegate certain other powers to the Executive Committee as provided in these bylaws.

3.02 Number of Directors. The affairs and business of this Corporation shall be managed by a board of directors consisting of at least one member who must be at least eighteen (18) years old.

3.03 Election. The directors of the Corporation shall be elected at the annual meeting of the shareholders, except as hereinafter otherwise provided for the filling of vacancies. Each director shall hold office for a term of one year and until his successor shall have been duly chosen and shall have qualified, or until his death, or until he shall resign or shall have been removed in the manner hereinafter provided.

3.04 Vacancies in the Board. Any vacancy in the board of directors occurring during the year through death, resignation, removal or other cause, including vacancies caused by an increase in the number of directors, shall be filled for the unexpired portion of the directors term by the remaining directors. A majority of the remaining directors shall constitute a quorum, at any special meeting of the board called for the purpose of filling a vacancy on the board, or at any regular meeting thereof.

3.05 Directors Meetings. The annual meeting of the board of directors shall be held each year immediately following the annual meeting of the shareholders. Other regular meetings of the board of directors shall from time to time by resolution be prescribed. No further notice of such annual or regular meeting of the board of directors need by given.

3.06 Special Meetings. Special meetings of the board of directors may be called by or at the request of the president or any director. The person or persons authorized to call special meetings of the board of directors may fix any place, either within or without the State of Nevada, as the place for holding any special meeting of the board of directors called by them.

3.07 Notice. Notice of any special meeting shall be given at least twenty-four hours previous thereto by written notice if personally delivered, or five days previous thereto if mailed to each director at his business address, or by telegram. If mailed, such notice shall be deemed to have been delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice is given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Any director may waive notice of any meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

3.08 Chairman. At all meetings of the board of directors, either the president or the chief executive officer shall serve as chairman, or in the absence of both the president and the chief executive officer, the directors present shall choose by majority vote a director to preside as chairman.

3.09 Quorum and Manner of Acting. A majority of the directors shall constitute a quorum for the transaction of business at any meeting and the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the board of directors. In the absence of a quorum, the majority of the directors present may adjourn any meeting from time to time until a quorum be had. Notice of any adjourned meeting need not be given. The directors shall act only as a board and the individual directors shall have no power as such. Directors may participate in the meeting by telephone conference or similar methods of communication by which all persons participating in the meeting can hear each other. Such participation shall constitute presence in person at the meeting.

3.10 Removal of Directors. Any one or more of the directors may be removed either with or without cause at any time by the vote or written consent of the shareholders representing two-thirds of the issued and outstanding capital stock entitled to voting power. However, if cumulative voting is provided under
Section 2.14, a particular director may not be removed if any shareholder who has the ability to elect the director does not consent to his removal.

3.11 Voting. At all meetings of the board of directors, each director is to have one vote, irrespective of the number of shares of stock that he may hold.

3.12 Compensation. By resolution of the board of directors, the directors may be paid their expenses, if any of attendance at each meeting of the board, and may be paid a fixed sum for attendance at meetings or a stated salary of directors. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

3.13 Presumption of Assent. A director of the Corporation who is present at a meeting of the board of directors at which action on any corporate matter is taken, shall be conclusively presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by certified or registered mail to the secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

4. EXECUTIVE COMMITTEE

4.01 Number and Election. The board of directors may, in its discretion, appoint from its membership one or more Executive Committee(s). Each committee shall include at least one director and may include natural persons who are not directors. Each committee member shall serve at the pleasure of the board of directors.

4.02 Authority. An Executive Committee is authorized to take any action which the board of directors could take, except that an Executive Committee shall not have the power either to issue or authorize the issuance of shares of capital stock, to amend the bylaws, or to take any action specifically prohibited by the bylaws, or a resolution of the board of directors. Any authorized action taken by an Executive Committee shall be as effective as if it had been taken by the full board of directors.

4.03 Regular Meetings. Regular meetings of an Executive Committee may be held within or without the State of Nevada at such time and place as the Executive Committee may provide from time to time.

4.04 Special Meetings. Special meetings of an Executive Committee may be called by or at the request of the president or any member of the Executive Committee.

4.05 Notice. Notice of any special meeting shall be given at least one day previous thereto by written notice, telephone, telegram or in person. Neither the business to be transacted, nor the purpose of a regular or special meeting of an Executive Committee need be specified in the notice or waiver of notice of such meeting. A member may waive notice of any meeting of an Executive Committee. The attendance of a member at any meeting shall constitute a waiver of notice of such meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

4.06 Quorum. A majority of the members of an Executive Committee shall constitute a quorum for the transaction of business at any meeting of the Executive Committee; provided that if fewer than a majority of the members are present at said meeting a majority of the members present may adjourn the meeting from time to time without further notice.

4.07 Manner of Acting. The act of the majority of the members present at a meeting at which a quorum is present shall be the act of an Executive Committee, and said Committee shall keep regular minutes of its proceedings which shall at all times be open for inspection by the board of directors. Members of an Executive Committee may participate in a meeting by telephone conference or similar methods of communication by which all persons participating in the meeting can hear each other. Such participation shall constitute presence in person at the meeting.

4.08 Presumption of Assent. A member of an Executive Committee who is present at a meeting of the Executive Committee at which action on any corporate matter is taken, shall be conclusively presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof, or shall forward such dissent by certified or registered mail to the secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a member of an Executive Committee who voted in favor of such action.

5. OFFICERS

5.01 Number. The officers of the Corporation shall be a president, a treasurer and a secretary and such other or subordinate officers as the board of directors may from time to time elect. One person may hold the office and perform the duties of one or more of said officers. No officer need be a member of the board of directors.

5.02 Election. Term of Office, Qualifications. The officers of the Corporation shall be chosen by the board of directors and they shall be elected annually at the meeting of the board of directors held immediately after each annual meeting of the shareholders except as hereinafter otherwise provided for filling vacancies. Each officer shall hold his office until his successor has been duly chosen and has qualified, or until his death, or until he resigns or has removed in the manner hereinafter provided.

5.03 Removal. Any officer or agent elected or appointed by the board of directors may be removed by the board of directors at any time whenever in its judgment the best interests of the Corporation would be served thereby, and such removal shall be without prejudice to the contract rights, if any, of the person so removed; provided, however, that the removal of the president and chief executive officer shall require the affirmative vote of five out of seven board members or, if the number of board members increases or decreases, an equivalent percentage of such members.

5.04 Vacancies. All vacancies in any office shall be filed by the board of directors without undue delay, at any regular meeting, or at a meeting specially called for that purpose.

5.05 President. The president shall be the chief executive officer of the Corporation and shall have general supervision over the business of the Corporation and over its several officers, subject, however, to the control of the board of directors. He may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the board of directors, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors or by these bylaws to some other officer or agent of the Corporation; and in general shall perform all duties incident to the duties of the president, and such other duties as from time to time may be assigned to him by the board of directors.

5.06 Vice President. If the board elects a vice president, such vice president shall in the absence or incapacity of the president, or as ordered by the board of directors, perform the duties of the president, or such other duties or functions as may be given to him by the board of directors from time to time.

5.07 Treasurer. The treasurer shall have the care and custody of all the funds and securities of the Corporation and deposit the same in the name of the Corporation in such bank or trust company as the board of directors may designate; he may sign or countersign all checks, drafts and orders for the payment of money and may pay out and dispose of same under the direction of the board of directors, and may sign or countersign all notes or other obligations of indebtedness of the Corporation; he shall at all reasonable times exhibit the books and accounts to any director or shareholder of the Corporation under application at the office of the company during business hours; and he shall, in general, perform all duties as from time to time may be assigned to him by the president or by the board of directors. The board of directors may at its discretion require that each officer authorized to disburse the funds of the Corporation be bonded in such amount as it may deem adequate.

5.08 Secretary. The secretary shall keep the minutes of the meetings of the board of directors and also the minutes of the meetings of the shareholders; he shall attend to the giving and serving of all notices of the Corporation and shall affix the seal of the Corporation to all certificates of stock; he may sign or countersign all checks, drafts and orders for payment of money; he shall have charge of the certificate book and such other books and papers as the board may direct; he shall keep a stock book containing the names, alphabetically arranged, of all persons who are shareholders of the Corporation, showing their places of residence, the number of shares of stock held by them respectively, the time when they respectively became the owners thereof, and the amount paid thereof, and he shall, in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the president or by the board of directors.

5.09 Other Officers. The board of directors may authorize and empower other persons or other officers appointed by it to perform the duties and functions of the officers specifically designated above by special resolution in each case.

5.10 Assistant Treasurers and Assistant Secretaries. The assistant treasurers shall respectively, as may be required by the board of directors, give bonds for the faithful discharge of their duties, in such sums and with such sureties as the board of directors shall determine. The assistant treasurer and assistant secretaries shall, in general, perform such duties as may be assigned to them by the treasurer or the secretary respectively, or by the president or by the board of directors.

6. INDEMNIFICATION OF OFFICERS AND DIRECTORS

Except as hereinabove stated otherwise, the Corporation shall indemnify all of its officers and directors, past, present and future, against any and all expenses incurred by them, and each of them including but not limited to legal fees, judgments and penalties which may be incurred, rendered or levied in any legal action brought against any or all of them for or on account of any act or omission alleged to have been committed while acting within the scope of their duties as officers of directors of this Corporation.

7. CONTRACTS, LOANS CHECKS AND DEPOSITS

7.01 Contracts. The board of directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

7.02 Loans. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by the board of directors or approved by a loan committee appointed by the board of directors and charged with the duty of supervising investments. Such authority may be general or confined to specific instances.

7.03 Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolutions of the board of directors.

7.04 Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the board of directors may select.

8. CAPITAL STOCK

8.01 Form and Execution of Certificates. The certificates of shares of the capital stock of the Company shall be in such form as shall be approved by the Board of Directors. Shares issued in certificate form shall be signed by the Chairman of the Board of Directors or the President, or a Vice President, and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer. Each certificate of stock shall certify the number of shares owned by the shareholder in the Company.

8.02 Form and Issuance of Certificates of Stock. The shares of the Corporation shall be represented by certificates unless the board of directors shall by resolution provide that some or all of any class or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until the certificate is surrendered to the Corporation. Notwithstanding the adoption of any resolution providing for uncertificated shares, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the Corporation by, the chairman or vice chairman of the board of directors, or the president or vice president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary, representing the number of shares registered in certificate form. Corporation Corporation Corporation Corporation Corporation Corporation Corporation

8.03 Regulations. The board of directors may make such rules and regulations as it may deem expedient not inconsistent with the bylaws or with the articles of incorporation, concerning the issue, transfer and registration of certificates for shares of stock of the Corporation. It may appoint a transfer agent or a registrar of transfers, or both, and it may require all certificates to bear the signature of either or both.

8.04 Lost Certificates. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of the fact by the person claiming the certificate of stock to be lost or destroyed. When authorized such issue of a new certificate or certificates, the board of directors may, in its discretion

and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

9. DIVIDENDS

9.01 The Corporation shall be entitled to treat the holder of any share or shares of stock as the holder in fact thereof, and accordingly, shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as expressly provided by the laws of Nevada.

9.02 Dividends on the capital stock of the Corporation, subject to the provisions of the Articles of Incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law.

9.03 The board of directors may close the transfer books in its discretion for a period not exceeding fifteen (1 5) days preceding the date fixed for holding any meeting, annual or special of the shareholders, or the day appointed for the payment of a dividend.

9.04 Before payment of any dividend or making any distribution of profits, there may be set aside out of funds of the Corporation available for dividends, such sum or sums as the directors may from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any such other purpose as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

10. SEAL

The board of directors shall provide a corporate seal which shall be in the form of a circle and shall bear the full name of the Corporation, the year of its incorporation and the words "Corporate Seal, State of Nevada".

11. WAIVER OF NOTICE

Whenever any notice whatever is required to be given under the provisions of these bylaws, or under the laws of the State of Nevada, or under the provisions of the articles of incorporation, a waiver in writing signed by the person or person entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

12. DOCUMENT COPIES

Except as provided in Section 8.01 and where otherwise limited by law, any photocopy, facsimile copy, or other reliable reproduction of any writing may be substituted for the original writing or any original signature affixed thereto for any corporate purpose for which the original could be used, provided that the copy or reproduction is a complete reproduction of the entire original writing.

13. AMENDMENTS

These bylaws may be altered, amended or repealed and new bylaws may be adopted at any regular or special meeting of the shareholders by a vote of the shareholders owning a majority of the shares and entitled to vote thereat. These bylaws may also be altered, amended or repealed and new bylaws may be adopted at any regular or special meeting of the board of directors of the Corporation (if notice of such alteration or repeal be contained in the notice of such special meeting) by a majority vote of the directors present at the meeting at which a quorum is present, but any such amendment shall not be inconsistent with or contrary to the provision of the amendment adopted by the share-holders. If cumulative voting is provided, no amendment may restrict the rights of any shareholder to elect or remove directors except by the unanimous vote of all shareholders.

The undersigned, being the Secretary of ENGLOBAL CORPORATION, a Nevada Corporation, hereby acknowledges that the above and foregoing bylaws were duly adopted as the bylaws of said Corporation on the 6th day of November, 2007.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 6th day of November, 2007.

/s/ Natalie S. Hairston

Natalie S. Hairston
Chief Governance Officer and Secretary

Exhibit 10.2

AMENDED AND RESTATED
ALLIANCE STOCK OPTION AGREEMENT

PART I

Optionee:	_____
Grant Date:	_____
Extension Date:	December 20, 2006
Vesting:	The option granted hereunder shall vest only upon the consummation of a "Company Sale Event" as defined herein.
Aggregate Number of Option Shares:	_____
Exercise Price per Share:	12/21/06 to 12/20/07 $1.56 12/21/07 to 12/20/08 $1.95 12/21/08 to 12/21/09 $2.44 12/21/09 to 12/20/10 $3.05 12/21/10 to 12/20/11 $3.81
Lapse Date	Any options not exercised on or prior to December 20, 2011 (the "Expiration Date") shall lapse and be of no further force and effect.

Part II of this Agreement is attached hereto and incorporated herein for all purposes. EXECUTED to be effective as of the Grant Date set forth above.

ENGLOBAL CORPORATION

By: _____
Michael L. Burrow, CEO

ALLIANCE 2000, LTD.

By: BHC Management Corporation
General Partner

_____
By: William A. Coskey, President

OPTIONEE

Signature: _____

Print Name:_____

Address:
_____

_____

PART II

This Amended and Restated Stock Option Agreement (this "Agreement") is made and entered into by and between Alliance 2000, Ltd., a Texas limited partnership (the "Alliance"), ENGlobal Corporation, formerly known as Industrial Data Systems Corporation (the "Company" or "ENGlobal") and the optionee named on Part I (the "Optionee"), as of the date set forth on Part I (the "Grant Date"). This Agreement is entered into pursuant to that certain Option Pool Agreement by and between ENGlobal (including its subsidiaries) and Alliance dated to be effective December 21, 2001, together with an amendment and restatement of the Option Pool Agreement dated to be effective December 20, 2006.

RECITALS:

Alliance and the Company entered into an Option Pool Agreement on December 21, 2001 in order to provide an incentive for key employees of the Company and of its subsidiaries to remain in the service of the Company or its subsidiaries, to extend to them the opportunity to acquire a proprietary interest in the Company so that they would apply their best efforts for the benefit of the Company and its subsidiaries, and would aid the Company in attracting able persons to enter the service of the Company and its subsidiaries.

To accomplish these purposes, Alliance agreed, in accordance with the terms of an Agreement and Plan of Merger dated July 31, 2001, to give certain current and future employees of ENGlobal options to acquire up to 2,600,000 shares of the common stock, par value, $.001 per share (the "Common Stock"), of ENGlobal held by Alliance, in accordance with the terms of the Option Pool Agreement.

Alliance, the Company, and Optionee wish to amend and restate the terms of the unexpired options granted under the Option Pool Agreement.

NOW, THEREFORE, parties agree as follows:

1. Grant of the Option. Alliance hereby extends the term of the option granted to Optionee under the Option Pool Agreement (the "Option") to purchase from Alliance the aggregate number of shares set forth on Part I (such number being subject to adjustment as provided below and as provided in Section 8) of common stock, $0.001 par value per share, of the Company (the "Shares") on the terms and conditions set forth in this Agreement. The Option may be exercised in whole or in part, subject to the terms and conditions of this Agreement. The Option is not intended to qualify as an "incentive stock option" under Section 422 of the Code.

2. Exercise Price. The price at which the Optionee shall be entitled to purchase the Shares shall be dependent on the date of exercise, as set forth on Part I subject to adjustment as provided in Section 8.

3. Vesting and Term of the Option.

(a) General. The Option shall vest and be exercisable in the hands of the Optionee only upon the consummation of a Company Sale Event. A "Company Sale Event" is (i) a sale of substantially all of the assets of the Company to a person or entity that is not an affiliate of the Company, (ii) any sale in a

single transaction or in a series of related and substantially similar contemporaneous transactions of the issued and outstanding securities of the Company representing 50% or more of the total number of shares of the Company then outstanding to any person or entity that is not an affiliate of the selling shareholders, or (iii) any merger, consolidation or reorganization of the Company with or into one or more entities that are not Affiliates of the Company, as a result of which less than 50% of the outstanding voting securities, partnership interests or membership interests of the surviving or resulting entity are owned by the holders of the Company's securities (or their Affiliates) immediately prior to such merger, consolidation or reorganization. Notwithstanding anything to the contrary provided herein, the issuance of securities by the Company in an acquisition by the Company or by any of its subsidiaries of another business shall not constitute a Company Sale Event. Options which shall have vested shall be referred to as "Vested Options."

(b) Expiration. Notwithstanding any other provision contained herein to the contrary, the unexercised portion of the Option, if any, will automatically and without notice terminate upon the earlier of (i) the death, disability or termination of employment of Optionee with the Company or any of its Subsidiaries, whether such termination is voluntary or otherwise; or (ii) December 21, 2011 (the "Expiration Date"); provided however, this Option shall not expire on death, disability or otherwise if Optionee retires from employment with the Company after he reaches age 66.

4. Method of Exercising Option. The Optionee may exercise any Vested Option concurrently with the consummation of a Company Sale Event. The Company shall give Optionee at least 30 days notice of the contemplated consummation of a Company Sale Event. Optionee may exercise this Option within 20 days of the receipt of such notice as to some or all of the Option Shares by delivery to the Company and to Alliance of a written notice in the form attached as Exhibit A (the "Exercise Notice), which Exercise Notice shall be effective, subject to the requirements of this Agreement, on the later of the date received by both of the Company and Alliance. The Exercise Notice shall state the Optionee's election to exercise the Option, the number of Options in respect of which an election to exercise has been made, the method of payment elected (see Section 5), the exact name or names in which the Shares then being purchased will be registered and the social security number of the Optionee. The Exercise Notice must be signed by the Optionee and must be accompanied by payment of the aggregate Exercise Price of the Shares then being purchased, determined in accordance with Part I. All Shares delivered by Alliance upon exercise of the Options as provided in this Agreement shall be fully paid and nonassessable upon delivery. Unless the Shares issued upon the exercise of the Options are then the subject of a registration statement effective under the Securities Act of 1933, as amended ("Securities Act") (and, if required, there is available for delivery a prospectus meeting the requirements of Section 10(a)(3) of the Securities Act), the delivery of the Exercise Notice shall be deemed to be the making by the person delivering such Exercise Notice of the representations, acknowledgments and agreements which would be contained in the Investment Letter referred to in
Section 9.

5. Method of Payment for Options. If the Company Sale Event results in a cash payment to the Company's stockholders, Optionee may elect to have the cash payment due to Alliance from Optionee upon exercise of the options deducted from the consideration Optionee would otherwise receive on the consummation of the

Company Sale Event if the stock were held by Optionee, and the amount deducted shall be deemed paid by Optionee to Alliance as the Exercise Price. Otherwise, unless permitted by Alliance, the full Exercise Price for the Shares purchased upon the exercise of the Vested Options (i.e., the number of Shares being purchased multiplied by the Exercise Price per Share) must be made in cash, unless Alliance and the Company approve an exercise in assets other than cash, which approval may be granted or withheld in the sole discretion of the Company and Alliance. Alliance will accept payment by cashier's check, personal check, provided that if such personal check is returned for insufficient funds, payment for the Shares and for any applicable taxes required to be withheld by the Company shall be deemed not to have occurred. In addition, the Option shall not be deemed to be exercised until the Optionee has provided payment to the Company for withholding taxes, if any, which may be due with respect to such exercise.

6. Delivery of Shares. No Shares and no consideration received on a Company Sale Event shall be delivered to the Optionee upon exercise of the Option until
(i) the Exercise Price for such Shares being purchased is paid in full in the manner provided in this Agreement by deduction or otherwise as provided in
Section 5; (ii) all the applicable taxes required to be withheld have been paid or withheld in full; and (iii) if required by the Board of Directors, the Optionee has delivered to the Company and Alliance an Investment Letter in form and content satisfactory to the Company as provided in Section 10.

(a) This Option shall not be transferable by the Optionee, unless Alliance and the Company approve the transfer of this Option, which approval may be granted or withheld in the sole discretion of the Company and Alliance.

(b) If Optionee attempts or purports to transfer, assign, pledge or hypothecate this Option, or any rights and privileges in connection herewith, in any way, whether by operation of law or otherwise, this Agreement and the Option granted hereunder will automatically terminate and the Option will thereafter be null and void.

7. Adjustments. If there is any change in the capital structure of the Company through merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares or similar event (a "Restructuring"), the rights of the Optionee shall be adjusted accordingly, i.e., the number of Shares exercisable hereunder shall be increased proportionately, and the price (including Exercise Price) for each Share shall be reduced proportionately, without changing the aggregate purchase price or value as to which outstanding Options remain exercisable or subject to restrictions. Nothing in this Agreement shall affect in any way the right or power of the Company to make or authorize any Restructuring.

8. Securities Act. Alliance will not be required to deliver any Shares pursuant to the exercise of all or any part of the Option if, in the reasonable opinion of counsel for Alliance, such delivery would violate the Securities Act or any other applicable federal or state securities laws or regulations. Alliance or the Company may require that the Optionee, prior to the transfer of any such Shares pursuant to exercise of the Option, sign and deliver to the Company a written statement (an "Investment Letter") stating that (a) the Optionee is purchasing the Shares for his own account and other than the Company Sale Event, is not purchasing the Shares with a view to, or for sale in connection with, any distribution thereof, he has no present or contemplated agreement, undertaking, arrangement, obligation, indebtedness or commitment providing for the disposition thereof and he does not currently have any reason

to anticipate a change in the foregoing; (b) the Optionee understands that the Shares have not been registered under the Securities Act or any applicable state securities laws or regulations and, therefore, cannot be offered or resold unless the Shares are so registered or an applicable exemption from registration is available; and (c) the Optionee agrees that the certificates representing the Shares may bear a legend to the effect set forth in clause (b) above. The Investment Letter must be in form and substance acceptable to the Company in its reasonable discretion.

9. Notice. All notices required or permitted under this Agreement, including an Exercise Notice, must be in writing and personally delivered or sent by mail and shall be deemed to be delivered on the date on which actually received by the Company properly addressed to the person who is to receive it. An Exercise Notice shall be effective when actually received by the Company and Alliance, in writing and in conformance with this Agreement. Until changed in accordance herewith, the Company, Alliance and the Optionee specify their respective addresses as set forth below:

Company:	ENGlobal Corporation 654 N. Sam Houston Pkwy. E Suite 400 Houston, Texas 77060-5914 Attention: Corporate Secretary
Alliance:	ALLIANCE 2000, LTD. 654 N. Sam Houston Pkwy. E Suite 400 Houston, Texas 77060-5914 Attention: General Partner
Optionee:	As indicated on Part I.

10. Information Confidential. As partial consideration for the granting of this Option, the Optionee agrees that he will keep confidential all information and knowledge that he has relating to the Options granted hereunder; provided, however, that such information may be disclosed as required by law and may be given in confidence to the Optionee's spouse, tax and financial advisors, or a financial institution to the extent that such information is necessary to obtain a loan.

11. No Guarantee of Continuation as an Employee. This Agreement shall not be construed to confer upon the Optionee any right to continue as an employee of the Company and shall not limit the right of the Company to terminate Optionee's employment at any time with or without cause and with or without notice, except to the extent set forth in a written employment contract signed by Optionee and a duly authorized officer of the Company.

12. No Obligation to Exercise. The Optionee shall have no obligation to exercise any Option granted by this Agreement.

13. Governing Law; Construction. This Agreement shall be governed by the laws of the State of Texas without regard to choice of law and conflicts of law principles which direct the application of the laws of a different state. Any disputes relating to this Agreement shall be heard in the state and federal courts of Harris County, Texas. Titles and headings are for ease of reference only and shall not be considered in construing this Agreement. Pronouns shall be deemed to include the masculine, feminine, neuter, singular and plural as the context may require. References to sections and exhibits are to Sections and Exhibits of this Agreement unless otherwise indicated. All such Exhibits are incorporated in this Agreement by reference and are a part hereof.

14. Amendments. This Agreement may be amended only by a written agreement executed by Alliance, the Company and the Optionee.

15. Proprietary Information. In consideration of Alliance's grant of this Option and in further consideration of the Company's agreement to provide Optionee with confidential information of the Company, Optionee agrees to keep confidential and not to use or to disclose to others at any time during the term of this Agreement or after its termination, except as expressly consented to in writing by the Company or required by law, any secrets or confidential technology or proprietary information of the Company, including, without limitation, any customer list, marketing plans or materials, or other trade secrets of the Company, or any matter or thing ascertained by Optionee through Optionee's affiliation with the Company, the use or disclosure of which matter or thing might reasonably be construed to be contrary to the best interests of the Company or to give any other party a competitive advantage to the Company. Optionee further agrees that if Optionee's employment with the Company is terminated for any reason, Optionee will neither take nor retain, without prior written authorization from the Company, any documents pertaining to the Company. Without limiting the generality of the foregoing, Optionee agrees that he will not retain, use or disclose any papers, customer lists, marketing materials or information, books, records, files, or other documents, copies thereof, or notes or other materials derived therefrom, or other confidential information of any kind belonging to the Company pertaining to the Company's business, sales, financial condition, or products, and that he will delete all such information from any electronic or other storage owned by Optionee or under Optionee's control. Within five days of a written request from the Company, Optionee will provide the Company with a signed affidavit verifying that all such confidential information has been returned to the Company or destroyed, and has been deleted from electronic or other storage. Without limiting other possible remedies to the Company for the breach of this covenant, Optionee agrees that injunctive or other equitable relief shall be available to enforce this covenant, such relief to be without the necessity of posting a bond, cash, or otherwise. Optionee further agrees that if any restriction contained in this Section is held by any court to be unenforceable or unreasonable, a lesser restriction shall be enforced in its place and remaining restrictions contained herein shall be enforced independently of each other. Optionee's obligations under this Section apply to all confidential information of the Company as well as to any and all confidential information relating to the Company's subsidiaries and affiliates.

16. Noncompetition.

(a) Basis of Covenants. The Company's business involves providing engineering, technical staffing, automation and control systems, field inspection, and land management and regulatory services to the petroleum refining, petrochemical, pipeline, production, and process industries throughout the United States and internationally. Optionee recognizes that the Company's and Alliance's decision to enter into this Agreement and to grant the Option herein granted is induced primarily because of the covenants and assurances made by Optionee in this Agreement, that irrevocable harm and damage will be done to the Company and Alliance if Optionee violates the obligation to maintain the confidentiality of proprietary information, or competes with the Company. Optionee stipulates and agrees that the consideration given by the Company and Alliance in granting this Option and in granting Optionee access to the confidential information of the Company gives rise to the Company's and Alliance's interest in the promises made by Optionee in this paragraph; further, Optionee stipulates that the promises Optionee makes in this paragraph are designed to enforce the promises made by Optionee, including those set forth in paragraph 15. Optionee will continue to receive the Company's proprietary information and will receive training of substantial value as a result of his affiliation with the Company.

(b) Noncompetition Covenant. Optionee agrees that for as long as Optionee has rights to acquire Shares under this Agreement, Optionee shall not, directly or indirectly, as an employee, employer, contractor, consultant, agent, principal, shareholder, corporate officer, director, or in any other individual or representative capacity, engage or participate in any business or practice that is in competition in any manner whatsoever with the business of the Company.

(c) Non-Interference Covenant. Optionee covenants and agrees that, for a period of one year subsequent to the termination, for whatever reason, of his employment with the Company, that Optionee shall not recruit, hire or attempt to recruit or hire, directly or by assisting others, any other employees of the Company, nor shall Optionee contact or communicate with any other employees of the Company for the purpose of inducing other employees to terminate their employment with the Company. For purposes of this covenant, "other employees" means employees who are actively employed by the Company at the time of the attempted recruiting or hiring.

(d) Remedies.

(i) This covenant shall be construed as an agreement ancillary to the other provisions of this Agreement and the existence of any claim or cause of action of Optionee against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company or Alliance of this covenant. Without limiting other possible remedies to the Company or Alliance for breach of this covenant, Optionee agrees that injunctive or other equitable relief will be available to enforce the covenants of this provision, such relief to be without the necessity of posting a bond, cash, or otherwise.

(ii) If Optionee violates any of the covenants of this paragraph 16, the two-year term of the restriction violated shall be extended by the amount of time that Optionee was in violation.

(iii) The Company, Alliance and Optionee further agree that if any restriction contained in this paragraph 16 is held by any appropriate forum to be unenforceable or unreasonable, a lesser restriction will be enforced in its place and remaining restrictions contained herein will be enforced independently of each other. Optionee agrees to pay any attorneys' fees and expenses incurred by the Company or Alliance if the Company or Alliance chooses, in their sole discretion, to enforce any provision hereunder.

(iv) If Optionee violates paragraph 15 or 16 of this Agreement at a time that he holds Options, the Options shall be immediately cancelled and shall have no further force and effect. In addition, if Optionee violates paragraph 15 or 16 of this Agreement following his exercise of Options, he shall forfeit to the Company an amount equal to the difference between the fair market value on the date of exercise for the Option exercised and the Exercise Price. This amount shall be paid to the Company in addition to payment of all other damages that the Company and Alliance has suffered as a result of Optionee's breach and in addition to all other relief to which the Company is entitled under this Agreement and under applicable law.

17. No Rights as a Shareholder. Optionee shall not by virtue of this Agreement, have any rights as a shareholder until the date of the issuance to the Optionee of Shares pursuant to a valid Exercise Notice.

18. Severability. If any provision of this Agreement is held by final judgment of a court of competent jurisdiction to be invalid, illegal or unenforceable, such invalid, illegal or unenforceable provision shall be severed from the remainder of this Agreement, and the remainder of this Agreement shall be enforced. In addition, the invalid, illegal or unenforceable provision shall be deemed to be automatically modified, and, as so modified, to be included in this Agreement, such modification being made to the minimum extent necessary to render the provision valid, legal and enforceable. Notwithstanding the foregoing, however, if the severed or modified provision concerns all or a portion of the essential consideration to be delivered under this Agreement by one party to the other, the remaining provisions of this Agreement shall also be modified to the extent necessary to equitably adjust the parties' respective rights and obligations hereunder.

19. Entire Agreement. Except as provided below, this Agreement, including the exhibits and schedules attached hereto, if any, contains the entire agreement of the parties with respect to the subject matters hereto, and supersedes all prior agreements between them, whether oral or written, of any nature whatsoever with respect to the subject matter hereof. However, this Agreement does not supersede any agreements between Optionee and the Company for options granted under the Company's Incentive Stock Option Plan, or the Company's rights under any agreement between Optionee and the Company that protects the Company's proprietary information or intellectual property; rather all such rights of the Company under any such agreements shall be in addition to the rights granted herein.

EXHIBIT A - EXERCISE NOTICE

Notice is hereby given to the Company of Optionee's election to exercise Options as follows:

Name of Optionee (please print): _____

Optionee's Social Security Number: _____

A. Number of Shares to be purchased:

B. Exercise Price per Share:	$
C. Method of payment (check one):	Cash: Other- as authorized by Alliance:
D. Exercise Price tendered herewith: (A x B)	$
E. Market Price per Share on date of Exercise:	$
F. Difference Between Market Price and Exercise Price (E - B):	$
G. Total Difference (F x A):	$
H. Withholding Tax Rate:	_____ %*
I. Amount of Tax Withholding tendered herewith (G x H):	$
J. Total Amount Due on Exercise (D + I):	$

*Upon exercise of Options, the Company may collect withholding tax on the difference between the market value of the Shares on the day of the exercise less the exercise price (the "difference"). This difference will be included on a Form W2 issued to the Optionee following the end of the year.

Exact name(s) for Share certificate(s):

Date: _____

Signature of Optionee

PLEASE COMPLETE AND SIGN THIS NOTICE AND RETURN IT TO BOTH:

ENGlobal Corporation
654 N. Sam Houston Pkwy. E
Suite 400
Houston, Texas 77060-5914
ATTN: Corporate Secretary

Alliance 2000, Ltd.
654 N. Sam Houston Pkwy. E
Suite 400
Houston, Texas 77060-5914
Attention: General Partner

Exhibit 10.6

ENGlobal Corporation

AMENDED AND RESTATED
1998 INCENTIVE PLAN

June 8, 2006

TABLE OF CONTENTS

AMENDED AND RESTATED
1998 INCENTIVE PLAN

SCOPE AND PURPOSE OF PLAN

ENGlobal Corporation, a Nevada corporation f/k/a Industrial Data Systems Corporation, (the "Corporation"), has adopted this Amended and Restated 1998 Incentive Plan (the "Plan") to provide for the granting of:

(a) Incentive Options (hereafter defined) to certain Key Employees (hereafter defined);

(b) Nonstatutory Options (hereafter defined) to certain Key Employees, Non-Employee Directors (hereafter defined) and other Persons;

(c) Restricted Stock Awards (hereafter defined) to certain Key Employees and other Persons; and

(d) Stock Appreciation Rights (hereafter defined) to certain Key Employees and other Persons.

The purpose of the Plan is to provide an incentive for Key Employees and directors of the Corporation or its Subsidiaries (hereafter defined) to aid the Corporation in attracting able Persons to enter the service of the Corporation and its Subsidiaries, to extend to them the opportunity to acquire a proprietary interest in the Corporation so that they will apply their best efforts for the benefit of the Corporation, and to remain in the service of the Corporation or its Subsidiaries. This Plan has been adopted by the Board of Directors and. shareholders of the Corporation prior to the registration of any securities of the Corporation under the Exchange Act (hereafter defined) and accordingly amounts paid under the Plan are exempt from the provisions of Section 162(m) of the Code (hereafter defined).

SECTION 1. DEFINITIONS

1.1 "Acquiring Person" means any Person other than the Corporation, any Subsidiary of the Corporation, any employee benefit plan of the Corporation or of a Subsidiary of the Corporation or of a corporation owned directly or indirectly by the shareholders of the Corporation in substantially the same proportions as their ownership of Stock of the Corporation, or any trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or of a Subsidiary of the Corporation or of a corporation owned directly or indirectly by the shareholders of the Corporation in substantially the same proportions as their ownership of Stock of the Corporation.

1.2 "Affiliate" means (a) any Person who is directly or indirectly the beneficial owner of at least 10% of the voting power of the Voting Securities or
(b) any Person controlling, controlled by, or under common control with the Company or any Person contemplated in clause. (a) of this Section 1.2.

1.3 "Award" means the grant of any form of Option, Restricted Stock Award, or Stock Appreciation Right under the Plan, whether granted individually, in combination, or in tandem, to a Holder pursuant to the terms, conditions, and limitations that the Committee may establish in order to fulfill the objectives of the Plan.

1.4 "Award Agreement" means the written agreement between the Corporation and a Holder evidencing the terms, conditions, and limitations of the Award granted to that Holder.

1.5 "Board of Directors" means the board of directors of the Corporation.

1.6 "Business Day" means any day other than a Saturday, a Sunday, or a day on which banking institutions in the State of Texas are authorized or obligated by law or executive order to close.

1.7 "Change in Control" means the event that is deemed to have occurred if:

(a) any Acquiring Person is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing fifty percent or more of the combined voting power of the then outstanding Voting Securities of the Corporation; provided, however, for purposes of this Section 1.7, an Acquiring Person shall not include William A. Coskey, Hulda L. Coskey, Alliance 2000, Ltd., or their respective affiliates or other donees or entities formed by them for estate planning or similar purposes (The Coskey Group); provided, further, if the Coskey Group shall cease to be the beneficial owner, directly or indirectly, of securities of the Corporation representing at least fifty percent of the combined voting power or the then outstanding Voting Securities of the Corporation, then the Coskey Group, upon reacquiring fifty percent or more of such voting power, shall be deemed to be an Acquiring Person; or

(b) members of the Incumbent Board cease for any reason to constitute at least a majority of the Board of Directors; or

(c) a public announcement is made of a tender or exchange offer by any Acquiring Person for fifty percent or more of the outstanding Voting Securities of the Corporation, and the Board of Directors approves or fails to oppose that tender or exchange offer in its statements in Schedule 14D-9 under the Exchange Act; or

(d) the shareholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation or partnership (or, if no such approval is required, the consummation of such a merger or consolidation of the Corporation), other than a merger or consolidation that would result in the Voting Securities of the Corporation outstanding immediately before the consummation thereof continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity or of a parent of the surviving entity) a majority of the combined voting power of the Voting Securities of the surviving entity (or its parent) outstanding immediately after that merger or consolidation; or

(e) the shareholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all the Corporation's assets (or, if no such approval is required, the consummation of such a liquidation, sale, or disposition in one transaction or series of related transactions) other than a liquidation, sale, or disposition of all or substantially all the Corporation's assets in one transaction or a series of related transactions to a corporation owned directly or indirectly by the shareholders of the Corporation in substantially the same proportions as their ownership of Stock of the Corporation.

1.8 "Code" means the Internal Revenue Code of 1986, as amended.

1.9 "Committee" means the Committee, which Committee shall administer this Plan and is further described under Section 3.

1.10 "Convertible Securities" means evidences of indebtedness, shares of capital stock, or other securities that are convertible into or exchangeable for shares of Stock, either immediately or upon the arrival of a specified date or the happening of a specified event.

1.11 "Corporation" has the meaning given to it in the first paragraph under "Scope and Purpose of Plan."

1.12 "Date of Grant" has the meaning given it in Section 4.3.

1.13 "Disability" has the meaning given it in Section 10.4.

1.14 "Effective Date" means June 8, 1998.

1.15 "Eligible Individuals" means (a) Key Employees, (b) Non-Employee Directors only for purposes of Nonstatutory Options pursuant to Section 8, (c) any other Person that the Committee designates as eligible for an Award (other than for Incentive Options) because the Person performs, or has performed, valuable services for the Corporation or any of its Subsidiaries (other than services in connection with the offer or sale of securities in a capital- raising transaction) and the Committee determines that the Person has a direct and significant effect on the financial development of the Corporation or any of its Subsidiaries, and (d) any transferee of an Award if the Award Agreement provides for transfer of the Award and the Award is transferred in accordance with the terms of the Award Agreement. Notwithstanding the foregoing provisions of this Section 1.15, to ensure that the requirements of the fourth sentence of
Section 3.1 are satisfied, the Board of Directors may from time to time specify individuals who shall not be eligible for the grant of Awards or equity securities under any plan of the Corporation or its Affiliates. Nevertheless, the Board of Directors may at any time determine that an individual who has been so excluded from eligibility shall become eligible for grants of Awards and grants of such other equity securities under any plans of the Corporation or its Affiliates so long as that eligibility will not impair the Plan's satisfaction of the conditions of Rule 16b-3.

1.16 "Employee" means any employee of the Corporation or of any of its Subsidiaries, including officers and directors of the Corporation who are also employees of the Corporation or of any of its Subsidiaries.

1.17 "Exchange Act" means the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, or any successor law, as it may be amended from time to time.

1.18 "Exercise Notice "has the meaning given it in Section 5.5.

1.19 "Exercise Price" has the meaning given it in Section 5.4.

1.20 "Fair Market Value" means, for a particular day:

(a) If shares of Stock of the same class are listed or admitted to unlisted trading privileges on any national or regional securities exchange at the date of determining the Fair Market Value, then the last reported sale price, regular way, on the composite tape of that exchange on the last Business Day before the date in question or, if no such sale takes place on that Business Day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to unlisted trading privileges on that securities exchange; or

(b) If shares of Stock of the same class are not listed or admitted to unlisted trading privileges as provided in Section 1.20(a) and sales prices for shares of Stock of the same class in the over-the-counter market are reported by the National Association of Securities Dealers, Inc. Automated Quotations, Inc. ("NASDAQ") National Market System (or such other system then in use) at the date of determining the Fair Market Value, then the last reported sales price so reported on the last Business Day before the date in question or, if no such sale takes place on that Business Day, the average of the high bid and low asked prices so reported; or

(c) If shares of Stock of the same class are not listed or admitted to unlisted trading privileges as provided in Section 1.20(a) and sales prices for shares of Stock of the same class are not reported by the NASDAQ National Market System (or a similar system then in use) as provided in Section 1.20(b), and if bid and asked prices for shares of Stock of the same class in the over-the-counter market are reported by NASDAQ (or, if not so reported, by the National Quotation Bureau Incorporated) at the date of determining the Fair Market Value, then the average of the high bid and low asked prices on the last Business Day before the date in question; or

(d) If shares of Stock of the same class are not listed or admitted to unlisted trading privileges as provided in Section 1.20(a) and sales prices or bid and asked prices therefore are not reported by NASDAQ (or the National Quotation Bureau Incorporated) as provided in Section 1.20(b) or Section 1.20(c) at the date of determining the Fair Market Value, then the value determined in good faith by the Committee, which determination shall be conclusive for all purposes; or

(e) If shares of Stock of the same class are listed or admitted to unlisted trading privileges as provided in Section 1.20(a) or sales prices or bid and asked prices therefore are reported by NASDAQ (or the National Quotation Bureau Incorporated) as provided in Section 1.20(b) or Section 1.20(c) at the date of determining the Fair Market Value, but the volume of trading is so low that the Board of Directors determines in good faith that such prices are not indicative of the fair value of the Stock, then the value determined in good faith by the Committee, which determination shall be conclusive for all purposes notwithstanding the provisions of Sections 1.20(a), (b), or (c).

For purposes of valuing Incentive Options, the Fair Market Value of Stock shall be determined without regard to any restriction other than one that, by its terms, will never lapse. For purposes of the redemption provided for in Section 9.3(d)(v), Fair Market Value shall have the meaning and shall be determined as set forth above; provided, however, that the Committee, with respect to any such redemption, shall have the right to determine that the Fair Market Value for purposes of the redemption should be an amount measured by the value of the shares of Stock, other securities, cash, or property otherwise being received by holders of shares of Stock in connection with the Restructuring and upon that determination the Committee shall have the power and authority to determine Fair Market Value for purposes of the redemption based upon the value of such shares of stock, other securities, cash, or property. Any such determination by the Committee, as evidenced by a resolution of the Committee, shall be conclusive for all purposes.

1.21 "Fiscal Year" means the fiscal year of the Corporation ending on December 31 of each year.

1.22 "Holder" means an Eligible Individual to whom an outstanding Award has been granted, or, pursuant to the terms of the Award Agreement, the permitted transferee of a Holder.

1.23 "Incumbent Board" means the individuals who, as of the Effective Date, constitute the Board of Directors and any other individual who becomes a director of the Corporation after that date and whose election or appointment by the Board of Directors or nomination for election by the Corporation's shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board.

1.24 "Incentive Option" means an incentive stock option as defined under
Section 422 of the Code and regulations thereunder.

1.25 "Key Employee" means any Employee whom the Committee identifies as having a direct and significant effect on the performance of the Corporation or any of its Subsidiaries.

1.26 "Non-Employee Director" means a director of the Corporation who while a director is not an Employee.

1.27 "Nonstatutory Option" means a stock option that does not satisfy the requirements of Section 422 of the Code or that is designated at the Date of Grant or in the applicable Award Agreement to be an option other than an Incentive Option.

1.28 "Non-Surviving Event" means an event of Restructuring as described in either Section 1.35(b) or Section 1.35(c).

1.29 "Normal Retirement" means the separation of the Holder from employment with the Corporation and its Subsidiaries with the right to receive an immediate benefit under a retirement plan approved by the Corporation. If no such plan exists, Normal Retirement shall mean separation of the Holder from employment with the Corporation and its Subsidiaries at age 62 or later.

1.30 "Option" means either an Incentive Option or a Nonstatutory Option, or both.

1.31 "Person" means any person or entity of any nature whatsoever, specifically including (but not limited to) an individual, a firm, a company, a corporation, a partnership, a trust, or other entity. A Person, together with that Person's affiliates and associates (as "affiliate" and "associate" are defined in Rule 12b-2 under the Exchange Act for purposes of this definition only), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate, or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting, or disposing of securities of the Corporation with that Person, shall be deemed a single "Person. "

1.32 "Plan" means the Corporation's 1998 Incentive Plan, as it may be amended or restated from time to time.

1.33 "Restricted Stock" means Stock that is nontransferable or subject to substantial risk of forfeiture until specific conditions are met.

1.34 "Restricted Stock Award" means the grant or purchase, on the terms and conditions of Section 7 or that the Committee otherwise determines, of Restricted Stock.

1.35 "Restructuring" means the occurrence of any one or more of the following:

(a) The merger or consolidation of the Corporation with any Person, whether effected as a single transaction or a series of related transactions, with the Corporation remaining the continuing or surviving entity of that merger or consolidation and the Stock remaining outstanding and not changed into or exchanged for stock or other securities of any other Person or of the Corporation, cash, or other property;

(b) The merger or consolidation of the Corporation with any Person, whether effected as a single transaction or a series of related transactions, with (i) the Corporation not being the continuing or surviving entity of that merger or consolidation or (ii) the Corporation remaining the continuing or surviving entity of that merger or consolidation but all or a part of the outstanding shares of Stock are changed into or exchanged for stock or other securities of any other Person or the Corporation, cash, or other property; or

(c) The transfer, directly or indirectly, of all or substantially all of the assets of the Corporation (whether by sale, merger, consolidation, liquidation, or otherwise) to any Person, whether effected as a single transaction or a series of related transactions.

1.36 "Rule 16b-3" means Rule 16b-3 under Section 16(b) of the Exchange Act as adopted in Exchange Act Release No. 34-37260 (May 31, 1996), or any successor rule, as it may be amended from time to time.

1.37 "Securities Act" means the Securities Act of 1933 and the rules and regulations promulgated thereunder, or any successor law, as it may be amended from time to time.

1.38 "Stock" means the common stock, $0.001 par value per share, of the Corporation, or any other securities that are substituted for the Stock as provided in Section 9.

1.39 "Stock Appreciation Right" means the right to receive an amount equal to the excess of the Fair Market Value of a share of Stock (as determined on the date of exercise) over, as appropriate, the Exercise Price of a related Option or the Fair Market Value of the Stock on the Date of Grant of the Stock Appreciation Right.

1.40 "Subsidiary" means, with respect to any Person, any corporation, or other entity of which a majority of the Voting Securities is owned, directly or indirectly, by that Person.

1.41 "Total Shares" has the meaning given it in Section 9.2.

1.42 "Voting Securities" means any securities that are entitled to vote generally in the election of directors, in the admission of general partners or in the selection of any other similar governing body.

SECTION 2. SHARES OF STOCK SUBJECT TO THE PLAN

2.1 Maximum Number of Shares. Subject to the provisions of Section 2.2 and Section 9, the aggregate number of shares of Stock that may be issued or transferred pursuant to Awards under the Plan shall be 2,650,000.

2.2 Limitation of Shares. For purposes of the limitations specified in Section 2.1, the following principles shall apply:

(a) the following shall count against and decrease the number of shares of Stock that may be issued for purposes of Section 2.1: (i) shares of Stock subject to outstanding Options, outstanding shares of Restricted Stock, and shares subject to outstanding Stock Appreciation Rights granted

independent of Options (based on a good faith estimate by the Corporation or the Committee of the maximum number of shares for which the Stock Appreciation Right may be settled (assuming payment in full in shares of Stock)), and (ii) in the case of Options granted in tandem with Stock Appreciation Rights, the greater of the number of shares of Stock that would be counted if one or the other alone was outstanding (determined as described in clause (i) above);

(b) the following shall be added back to the number of shares of Stock that may be issued for purposes of Section 2.1: (i) shares of Stock with respect to which Options, Stock Appreciation Rights granted independent of Options, or Restricted Stock Awards expire, are cancelled, or otherwise terminate without being exercised, converted, or vested, as applicable, and
(ii) in the case of Options granted in tandem with Stock Appreciation Rights, shares of Stock as to which an Option has been surrendered in connection with the exercise of a related ("tandem") Stock Appreciation Right, to .the, extent the number surrendered exceeds the number issued upon exercise of the Stock Appreciation Right; provided that, in any case, the holder of such Awards did not receive any dividends or other benefits of ownership with respect to the underlying shares being added back, other than voting rights and the accumulation (but not payment) of dividends of Stock;

(c) shares of Stock subject to Stock Appreciation Rights granted independent of Options (calculated as provided in clause (a) above) that are exercised and paid in cash shall be added back to the number of shares of Stock that may be issued for purposes of Section 2.1, provided that the Holder of such Stock Appreciation Right did not receive any dividends or other benefits of ownership, other than voting rights and the accumulation (but not payment) of dividends, of the shares of Stock subject to the Stock Appreciation Right;

(d) shares of Stock that are transferred by a Holder of an Award (or withheld by the Corporation) as full or partial payment to the Corporation of the purchase price of shares of Stock subject to an Option or the Corporation's or any Subsidiary's tax withholding obligations shall not be added back to the number of shares of Stock that may be issued for purposes of Section 2.1 and shall not again be subject to Awards; and

(e) if the number of shares of Stock counted against the number of shares that may be issued for purposes of Section 2.1 is based upon an estimate made by the Corporation or the Committee as provided in clause (a) above and the actual number of shares of Stock issued pursuant to the applicable Award is greater or less than the estimated number, then, upon such issuance, the number of shares of Stock that may be issued pursuant to
Section 2.1 shall be further reduced by the excess issuance or increased by the shortfall, as applicable.

Notwithstanding the provisions of this Section 2.2, no Stock shall be treated as issuable under the Plan to Eligible Individuals subject to Section 16 of the Exchange Act if otherwise prohibited from issuance under Rule 16b-3.

2.3 Description of Shares. The shares to be delivered under the Plan shall be made available from (a) authorized but unissued shares of Stock, (b) Stock held in the treasury of the Corporation, or (c) previously issued shares of Stock reacquired by the Corporation, including shares purchased on the open market, in each situation as the Board of Directors or the Committee may determine from time to time at its sole option.

2.4 Registration and Listing of Shares. From time to time, the Board of Directors and appropriate officers of the Corporation shall and are authorized to take whatever actions are necessary to file required documents with governmental authorities, stock exchanges, and other appropriate Persons to make shares of Stock available for issuance pursuant to the exercise of Awards.

SECTION 3. ADMINISTRATION OF THE PLAN

3.1 Committee. The Committee shall administer the Plan with respect to all Eligible Individuals who are subject to Section 16(b) of the Exchange Act (other than members of the Committee), but shall not have the power to appoint members of the Committee or to terminate, modify, or amend the Plan. The full Board of Directors shall administer the Plan with respect to all members of the Committee. Except for references in Sections 3.1, 3.2 and 3.3, and unless the context otherwise requires, references herein to the Committee shall also refer to the Board of Directors as administrator of the Plan for members of the Committee. The Committee shall be constituted so that, as long as Stock is registered under Section 12 of the Exchange Act, each member of the Committee shall be a Non-Employee Director and so that the Plan in all other applicable respects will qualify transactions related to the Plan for the exemptions from
Section 16(b) of the Exchange Act provided by Rule 16b-3, to the extent exemptions thereunder may be available. The number of Persons that shall constitute the Committee shall be determined from time to time by a majority of all the members of the Board of Directors and, unless that majority of the Board of Directors determines otherwise or Rule 16b-3 is amended to require otherwise, shall be no less than two Persons. The Board of Directors may designate the Compensation Committee of the Board of Directors to serve as the Committee hereunder. To the extent that Rule 16b-3 promulgated under the Exchange Act requires a system of administration that is different from this Section 3.1, this Section 3.1 shall automatically be deemed amended to the extent necessary to cause it to be in compliance with Rule 16b-3.

3.2 Duration, Removal, Etc. The members of the Committee shall serve at the discretion of the Board of Directors, which shall have the power, at any time and from time to time, to remove members from or add members to the Committee. Removal from the Committee may be with or without cause. Any individual serving as a member of the Committee shall have the right to resign from membership in the Committee by at least three days' written notice to the Board of Directors. The Board of Directors, and not the remaining members of the Committee, shall have the power and authority to fill all vacancies on the Committee. The Board of Directors shall promptly fill any vacancy that causes the number of members of the Committee to be below two or any other number that Rule 16b-3 may require from time to time.

3.3 Meetings and Actions of Committee. The Board of Directors shall designate which of the Committee members shall be the chairman of the Committee. If the Board of Directors fails to designate a Committee chairman, the members of the Committee shall elect one of the Committee members as chairman, who shall act as chairman until he ceases to be a member of the Committee or until the Board of Directors elects a new chairman. The Committee shall hold its meetings at those times and places as the chairman of the Committee may determine. At all

meetings of the Committee, a quorum for the transaction of business shall be required and a quorum shall be deemed present if at least a majority of the members of the Committee are present. At any meeting of the Committee, each member shall have one vote. All decisions and determinations of the Committee shall be made by the majority vote or majority decision of all of its members present at a meeting at which a quorum is present; provided, however, that any decision or determination reduced to writing and signed by all of the members of the Committee shall be as fully effective as if it had been made at a meeting that was duly called and held. The Committee may make any rules and regulations for the conduct of its business that are not inconsistent with the provisions of the Plan, the Articles or Certificate of Incorporation of the Corporation, the bylaws of the Corporation, and Rule 16b-3 so long as it is applicable, as the Committee may deem advisable.

3.4 Committee's Powers. Subject to the express provisions of the Plan and Rule 16b-3, the Committee shall have the authority, in its sole and absolute discretion, to (a) adopt, amend, and rescind administrative and interpretive rules and regulations relating to the Plan; (b) determine the Eligible Individuals to whom, and the time or times at which, Awards shall be granted;
(c) determine the amount of cash and the number of shares of Stock, Stock Appreciation Rights, or Restricted Stock Awards, or any combination thereof, that shall be the subject of each Award; (d) determine the terms and provisions of each Award Agreement (which need not be identical), including provisions defining or otherwise relating to (i) the term and the period or periods and extent of exercisability of the Options, (ii) the extent to which the transferability of shares of Stock issued or transferred pursuant to any Award is restricted, (iii) the effect of termination of employment of the Holder on the Award, and (iv) the effect of approved leaves of absence (consistent with any applicable regulations of the Internal Revenue Service); (e) accelerate, pursuant to Section 9, the time of exercisability of any Option that has been granted; (f) construe the respective Award Agreements and the Plan; (g) make determinations of the Fair Market Value of the Stock pursuant to the Plan; (h) delegate its duties under the Plan to such agents as it may appoint from time to time, provided that the Committee may not delegate its duties with respect to making Awards to, or otherwise with respect to Awards granted to, Eligible Individuals who are subject to Section 16(b) of the Exchange Act; and (i) make all other determinations, perform all other acts, and exercise all other powers and authority necessary or advisable for administering the Plan, including the delegation of those ministerial acts and responsibilities as the Committee deems appropriate. Subject to Rule 16b-3, the Committee may correct any defect, supply any omission, or reconcile any inconsistency in the Plan, in any Award, or in any Award Agreement in the manner and to the extent it deems necessary or desirable to carry the Plan into effect, and the Committee shall be the sole and final judge of that necessity or desirability. The determinations of the Committee on the matters referred to in this Section 3.4 shall be final and conclusive.

SECTION 4. ELIGIBILITY AND PARTICIPATION

4.1 Eligible Individuals. Awards may be granted pursuant to the Plan only to Persons who are Eligible Individuals at the time of the grant thereof.

4.2 Grant of Awards. Subject to the express provisions of the Plan, the Committee shall determine which Eligible Individuals shall be granted Awards from time to time. In making grants, the Committee shall take into consideration the contribution the potential Holder has made or may make to the success of the

Corporation or its Subsidiaries and such other considerations as the Board of Directors may from time to time specify. The Committee shall also determine the number of shares subject to each of the Awards and shall authorize and cause the Corporation to grant Awards in accordance with those determinations.

4.3 Date of Grant. The date on which the Committee completes all action resolving to offer an Award to an individual, including the specification of the number of shares of Stock to be subject to the Award, shall be the date on which the Award covered by an Award Agreement is granted (the "Date of Grant"), even though certain terms of the Award Agreement may not be determined at that time and even though the Award Agreement may not be executed until a later time. In no event shall a Holder gain any rights in addition to those specified by the Committee in its grant, regardless of the time that may pass between the grant of the Award and the actual execution of the Award Agreement by the Corporation and the Holder.

4.4 Award Agreements. Each Award granted under the Plan shall be evidenced by an Award Agreement that is executed by the Corporation and the Eligible Individual to whom the Award is granted and incorporating those terms that the Committee shall deem necessary or desirable. More than one Award may be granted under the Plan to the same Eligible Individual and be outstanding concurrently. In the event an Eligible Individual is granted both one or more Incentive Options and one or more Nonstatutory Options, those grants shall be evidenced by separate Award Agreements, one for each of the Incentive Option grants and one for each of the Nonstatutory Option grants.

4.5 Limitation for Incentive Options. Notwithstanding any provision contained herein to the contrary, (a) a Person shall not be eligible to receive an Incentive Option unless he is an Employee of the Corporation or a corporate Subsidiary (but not a partnership Subsidiary) and (b) a Person shall not be eligible to receive an Incentive Option if, immediately before the time the Option is granted, that Person owns (within the meaning of Sections 422 and 424(d) of the Code) stock possessing more than ten percent of the total combined voting power or value of all classes of outstanding stock of the Corporation or a Subsidiary. Nevertheless, Section 4.5(b) shall not apply if, at the time the Incentive Option is granted, the Exercise Price of the Incentive Option is at least one hundred ten percent of Fair Market Value and the Incentive Option is not, by its terms, exercisable after the expiration of five years from the Date of Grant.

4.6 No Right to Award. The adoption of the Plan shall not be deemed to give any Person a right to be granted an Award.

SECTION 5. TERMS AND CONDITIONS OF OPTIONS

All Options granted under the Plan shall comply with, and the related Award Agreement shall be deemed to include and be subject to, the terms and conditions set forth in this Section 5 (to the extent each term and condition applies to the form of Option) and also to the terms and conditions set forth in Sections 9 and 10; provided, however, that the Committee may authorize an Award Agreement that expressly contains terms and provisions that differ from the terms and provisions set forth in Sections 9.2, 9.3, and 9.4 and any of the terms and provisions of Section 10 (other than Sections 10.9 and 10. 10).

5.1 Number of Shares. Each Award Agreement shall state the total number of shares of Stock to which it relates.

5.2 Vesting. Each Award Agreement shall state the time or periods in which, or the conditions upon satisfaction of which, the right to exercise the Option or a portion thereof shall vest and the number of shares of Stock for which the right to exercise the Option shall vest at each such time, period, or fulfillment of condition.

5.3 Expiration of Options. No Option shall be exercised after the expiration of a period of ten years commencing on the Date of Grant of the Option; provided, however, that any portion of a Nonstatutory Option that pursuant to the terms of the Award Agreement under which such Nonstatutory Option is granted shall not become exercisable until the date which is the tenth anniversary of the Date of Grant of such Nonstatutory Option may be exercisable for a period of 30 days following the date on which such portion becomes exercisable.

5.4 Exercise Price. Each Award Agreement shall state the exercise price per share of Stock (the "Exercise Price"); provided, however, that the exercise price per share of Stock subject to an Option shall not be less than 100% of the Fair Market Value per share of the Stock on the Date of Grant of the Option.

5.5 Method of Exercise. The Option shall be exercisable only by written notice of exercise (the "Exercise Notice") delivered to the Corporation during the term of the Option, which notice shall (a) state the number of shares of Stock with respect to which the Option is being exercised, (b) be signed by the Holder of the Option, a designated representative approved by the Committee or, if the Holder is dead or becomes affected by a Disability, by the Person authorized to exercise the Option pursuant to Sections 10.3 and 10.4, (c) be accompanied by the Exercise Price for all shares of Stock for which the Option is being exercised, and (d) include such other information, instruments, and documents as may be required to satisfy any other condition to exercise contained in the Award Agreement. The Option shall, not be deemed to have been exercised unless all of the requirements of the preceding provisions of this
Section 5.5 have been satisfied.

5.6 Incentive Option Exercises. Except as otherwise provided in Section 10.4 or in the Award Agreement, during the Holder's lifetime, only the Holder or a designated representative approved by the Committee may exercise an Incentive Option.

5.7 Medium and Time of Payment. The Exercise Price of an Option shall be payable in full upon the exercise of the Option (a) in cash or by an equivalent means acceptable to the Committee, (b) on the Committee's prior consent, with shares of Stock owned by the Holder (including shares received upon exercise of the Option or restricted shares already held by the Holder) and having a Fair Market Value at least equal to the aggregate Exercise Price payable in connection with such exercise, or (c) by any combination of clauses (a) and (b). If the Committee elects to accept shares of Stock in payment of all or any portion of the Exercise Price, then (for purposes of payment of the Exercise Price) those shares of Stock shall be deemed to have a cash value equal to their aggregate Fair Market Value determined as of the date the certificate for such shares is delivered to the Corporation. If the Committee elects to accept shares of restricted Stock in payment of all or any portion of the Exercise Price, then an equal number of shares issued pursuant to the exercise shall be restricted on the same terms and for the restriction period remaining on the shares used for payment.

5.8 Payment with Sale Proceeds. In addition, at the request of the Holder and to the extent permitted by applicable law, the Committee may (but shall not be required to) approve arrangements with a brokerage firm under which that brokerage firm, on behalf of the Holder, shall pay to the Corporation the Exercise Price of the Option being exercised and the Corporation shall promptly deliver the exercised shares of Stock to the brokerage firm. To accomplish this transaction, the Holder must deliver to the Corporation an Exercise Notice containing irrevocable instructions from the Holder to the Corporation to deliver the Stock certificates representing the shares of Stock directly to the broker. Upon receiving a copy of the Exercise Notice acknowledged by the Corporation, the broker shall sell that number of shares of Stock or loan the Holder an amount sufficient to pay the Exercise Price and any withholding obligations due. The broker then shall deliver to the Corporation that portion of the sale or loan proceeds necessary to cover the Exercise Price and any withholding obligations due. The Committee shall not approve any transaction of this nature if the Committee believes that the transaction would give rise to the Holder's liability for short-swing profits under Section 16(b) of the Exchange Act.

5.9 Payment of Taxes. The Committee may, in its discretion, require a Holder to pay to the Corporation (or the Corporation's Subsidiary if the Holder is an employee of a Subsidiary of the Corporation), at the time of the exercise of an Option or thereafter, the amount that the Committee deems necessary to satisfy the Corporation's or its Subsidiary's current or future obligation to withhold federal, state, or local income or other taxes that the Holder incurs by exercising an Option. In connection with the exercise of an Option requiring tax withholding, a Holder may (a) direct the Corporation to withhold from the shares of Stock to be issued to the Holder the number of shares necessary to satisfy the Corporation's obligation to withhold taxes, that determination to be based on the shares' Fair Market Value as of the date of exercise; (b) deliver to the Corporation sufficient shares of Stock (based upon the Fair Market Value as of the date of such delivery) to satisfy the Corporation's tax withholding obligations, which tax withholding obligation is based on the shares' Fair Market Value as of the later of the date of exercise or the date as of which the shares of Stock issued in connection with such exercise become includible in the income of the Holder; or (c) deliver sufficient cash to the Corporation to satisfy its tax withholding obligations. Holders who elect to use such a Stock withholding feature must make the election at the time and in the manner that the Committee prescribes. The Committee may, at its sole option, deny any Holder's request to satisfy withholding obligations through Stock instead of cash. In the event the Committee subsequently determines that the aggregate Fair Market Value (as determined above) of any shares of Stock withheld or delivered as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then the Holder shall pay to the Corporation, immediately upon the Committee's request, the amount of that deficiency in the form of payment requested by the Committee.

5.10 Limitation on Aggregate Value of Shares That May Become First Exercisable During Any Calendar Year Under an Incentive Option. Except as is otherwise provided in Section 9.3, with respect to any Incentive Option granted under this Plan, the aggregate Fair Market Value of shares of Stock subject to an Incentive Option and the aggregate Fair Market Value of shares of Stock or stock of any Subsidiary (or a predecessor of the Corporation or a Subsidiary) subject to any other incentive stock option (within the meaning of Section 422

of the Code) of the Corporation or its Subsidiaries (or a predecessor corporation of any such corporation) that first become purchasable by a Holder in any calendar year may not (with respect to that Holder) exceed $100,000, or such other amount as may be prescribed under Section 422 of the Code or applicable regulations or rulings from time to time. As used in the previous sentence, Fair Market Value shall be determined as of the Date of Grant of the Incentive Option. For purposes of this Section 5.10, "predecessor corporation" means (a) a corporation that was a party to a transaction described in Section 424(a) of the Code (or which would be so described if a substitution or assumption under that Section had been effected) with the Corporation, (b) a corporation which, at the time the new incentive stock option (within the meaning of Section 422 of the Code) is granted, is a Subsidiary of the Corporation or a predecessor corporation of any such corporations, or (c) a predecessor corporation of any such corporations. Failure to comply with this provision shall not impair the enforceability or exercisability of any Option, but shall cause the excess amount of shares to be reclassified in accordance with the Code.

5.11 No Fractional Shares. The Corporation shall not in any case be required to sell, issue, or deliver a fractional share with respect to any Option. In lieu of the issuance of any fractional share of Stock, the Corporation shall pay to the Holder an amount in cash equal to the same fraction (as the fractional Stock) of the Fair Market Value of a share of Stock determined as of the date of the applicable Exercise Notice.

5.12 Modification, Extension, and Renewal of Options. Subject to the terms and conditions of and within the limitations of the Plan, Rule 16b-3, and any consent required by the last sentence of this Section 5.12, the Committee may
(a) modify, extend, or renew outstanding Options granted under the Plan, (b) accept the surrender of Options outstanding hereunder (to the extent not previously exercised) and authorize the granting of new Options in substitution for outstanding Options (to the extent not previously exercised), and (c) amend the terms of an Incentive Option at any time to include provisions that have the effect of changing the Incentive Option to a Nonstatutory Option. Nevertheless, without the consent of the Holder, the Committee may not modify any outstanding Options so as to specify a higher or lower Exercise Price or accept the surrender of outstanding Incentive Options and authorize the granting of new Options in substitution therefor specifying a higher or lower Exercise Price. In addition, no modification of an Option granted hereunder shall, without the consent of the Holder, alter or impair any rights or obligations under any Option theretofore granted to such Holder under the Plan except, with respect to Incentive Options, as may be necessary to satisfy the requirements of Section 422 of the Code or as permitted in clause (c) of this Section 5.12.

5.13 Other Agreement Provisions. The Award Agreements relating to Options shall contain such provisions in addition to those required by the Plan (including without limitation restrictions or the removal of restrictions upon the exercise of the Option and the retention or transfer of shares thereby acquired) as the Committee may deem advisable. Each Award Agreement shall identify the Option evidenced thereby as an Incentive Option or Nonstatutory Option, as the case may be, and no Award Agreement shall cover both an Incentive Option and a Nonstatutory Option. Each Award Agreement relating to an Incentive Option granted hereunder shall contain such limitations and restrictions upon the exercise of the Incentive Option to which it relates as shall be necessary for the Incentive Option to which such Award Agreement relates to constitute an incentive stock option, as defined in Section 422 of the Code.

SECTION 6. STOCK APPRECIATION RIGHTS

All Stock Appreciation Rights granted under the Plan shall comply with, and the related Award Agreements shall be deemed to include and be subject to, the terms and conditions set forth in this Section 6 (to the extent each term and condition applies to the form of Stock Appreciation Right) and also the terms and conditions set forth in Sections 9 and 10; provided, however, that the Committee may authorize an Award Agreement related to a Stock Appreciation Right that expressly contains terms and provisions that differ from the terms and provisions set forth in Sections 9.2, 9.3, and 9.4 and any of the terms and provisions of Section 10 (other than Sections 10. 9 and 10.10).

6.1 Form of Right. A Stock Appreciation Right may be granted to an Eligible Individual (a) in connection with an Option, either at the time of grant or at any time during the term of the Option, or (b) independent of an Option.

6.2 Rights Related to Options. A Stock Appreciation Right granted pursuant to an Option shall entitle the Holder, upon exercise, to surrender that Option or any portion thereof, to the extent unexercised, and to receive payment of an amount computed pursuant to Section 6.2(b,). That Option shall then cease to be exercisable to the extent surrendered. Stock Appreciation Rights granted in connection with an Option shall be subject to the terms of the Award Agreement governing the Option, which shall comply with the following provisions in addition to those applicable to Options:

(a) Exercise and Transfer. Subject to Section 10.9, a Stock Appreciation Right granted in connection with an Option shall be exercisable only at such time or times and only to the extent that the related Option is exercisable and shall not be transferable except to the extent that the related Option is transferable.

(b) Value of Right. Upon the exercise of a Stock Appreciation Right related to an Option, the Holder shall be entitled to receive payment from the Corporation of an amount determined by multiplying:

(i) The difference obtained by subtracting the Exercise Price of a share of Stock specified in the related Option from the Fair Market Value of a share of Stock on the date of exercise of the Stock Appreciation Right, by

(ii) The number of shares as to which that Stock Appreciation Right has been exercised.

6.3 Right Without Option. A Stock Appreciation Right granted independent of an Option shall be exercisable as determined by the Committee and set forth in the Award Agreement governing the Stock Appreciation Right, which Award Agreement shall comply with the following provisions:

(a) Number of Shares. Each Award Agreement shall state the total number of shares of Stock to which the Stock Appreciation Right relates.

(b) Vesting. Each Award Agreement shall state the time or periods in which the right to exercise the Stock Appreciation Right or a portion thereof shall vest and the number of shares of Stock for which the right to exercise the Stock Appreciation Right shall vest at each such time or period.

(c) Expiration of Rights. Each Award Agreement shall state the date at which the Stock Appreciation Rights shall expire if not previously exercised.

(d) Value of Right. Each Stock Appreciation Right shall entitle the Holder, upon exercise thereof, to receive payment of an amount determined by multiplying:

(i) The difference obtained by subtracting the Fair Market Value of a share of Stock on the Date of Grant of the Stock Appreciation Right from the Fair Market Value of a share of Stock on the date of exercise of that Stock Appreciation Right, by

(ii) The number of shares as to which the Stock Appreciation Right has been exercised.

6.4 Limitations on Rights. Notwithstanding Sections 6.2(b) and 6.3(d), the Committee may limit the amount payable upon exercise of a Stock Appreciation Right. Any such limitation must be determined as of the Date of Grant and be noted on the Award Agreement evidencing the Holder's Stock Appreciation Right.

6.5 Payment of Rights. Payment of the amount determined under Section 6.2(b) or 6.3(d) and Section 6.4 may be made, in the sole discretion of the Committee unless specifically provided otherwise in the Award Agreement, solely in whole shares of Stock valued at Fair Market Value on the date of exercise of the Stock Appreciation Right, solely in cash, or in a combination of cash and whole shares of Stock. If the Committee decides to make full payment in shares of Stock and the amount payable results in a fractional share, payment for the fractional share shall be made in cash.

6.6 Payment of Taxes. The Committee may, in its discretion, require a Holder to pay to the Corporation (or the Corporation's Subsidiary if the Holder is an employee of a Subsidiary of the Corporation), at the time of the exercise of a Stock Appreciation Right or thereafter, the amount that the Committee deems necessary to satisfy the Corporation's or its Subsidiary's current or future obligation to withhold federal, state, or local income or other taxes that the Holder incurs by exercising a Stock Appreciation Right. In connection with the exercise of a Stock Appreciation Right requiring tax withholding, a Holder may
(a) direct the Corporation to withhold from the shares of Stock to be issued to the Holder the number of shares necessary to satisfy the Corporation's obligation to withhold taxes, that determination to be based on the shares' Fair Market Value as of the date of exercise; (b) deliver to the Corporation sufficient shares of Stock (based upon the Fair Market Value as of the date of such delivery) to satisfy the Corporation's tax withholding obligations, which tax withholding obligation is based on the shares' Fair Market Value as of the later of the date of exercise or the date as of which the shares of Stock issued in connection with such exercise become includible in the income of the Holder; or (c) deliver sufficient cash to the Corporation to satisfy its tax withholding obligations. Holders who elect to have Stock withheld pursuant to (a) or (b)

above must make the election at the time and in the manner that the Committee prescribes. The Committee may, in its sole discretion, deny any Holder's request to satisfy withholding obligations through Stock instead of cash. In the event the Committee subsequently determines that the aggregate Fair Market Value (as determined above) of any shares of Stock withheld or delivered as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then the Holder shall pay to the Corporation, immediately upon the Committee's request, the amount of that deficiency in the form of payment requested by the Commission.

6.7 Other Agreement Provisions. The Award Agreements relating to Stock Appreciation Rights shall contain such provisions in addition to those required by the Plan (including without limitation restrictions or the removal of restrictions upon the exercise of the Stock Appreciation Right and the retention or transfer of shares thereby acquired) as the Committee may deem advisable.

SECTION 7. RESTRICTED STOCK AWARDS

All Restricted Stock Awards granted under the Plan shall comply with and be subject to, and the related Award Agreements shall be deemed to include, the terms and conditions set forth in this Section 7 and also to the terms and conditions set forth in Sections 9 and 10; provided, however, that the Committee may authorize an Award Agreement related to a Restricted Stock Award that expressly contains terms and provisions that differ from the terms and provisions set forth in Sections 9.2, 9.3, and 9.4 and the terms and provisions set forth in Section 10 (other than Sections 10.9 and 10.10).

7.1 Restrictions. All shares of Restricted Stock Awards granted or sold pursuant to the Plan shall be subject to the following conditions:

(a) Transferability. The shares may not be sold, transferred, or otherwise alienated or hypothecated until the restrictions are removed or expire.

(b) Conditions to Removal of Restrictions. Conditions to removal or expiration of the restrictions may include, but are not required to be limited to, continuing employment or service as a director, officer, or Key Employee or achievement of performance objectives described in the Award Agreement.

(c) Legend. Each certificate representing Restricted Stock Awards granted pursuant to the Plan shall bear a legend making appropriate reference to the restrictions imposed.

(d) Possession. The Committee may require the Corporation to retain physical custody of the certificates representing Restricted Stock Awards during the restriction period and may require the Holder of the Award to execute stock powers in blank for those certificates and deliver those

stock powers to the Corporation, or the Committee may require the Holder to enter into an escrow agreement providing that the certificates representing Restricted Stock Awards granted or sold pursuant to the Plan shall remain in the physical custody of an escrow holder until all restrictions are removed or expire.

(e) Other Conditions. The Committee may impose other conditions on any shares granted or sold as Restricted Stock Awards pursuant to the Plan as it may deem advisable, including without limitation (i) restrictions under the Securities Act or Exchange Act, (ii) the requirements of any securities exchange upon which the shares or shares of the same class are then listed, and (iii) any state securities law applicable to the shares.

7.2 Expiration of Restriction. The restrictions imposed in Section 7.1 on Restricted Stock Awards shall lapse as determined by the Committee and set forth in the applicable Award Agreement, and the Corporation shall promptly deliver to the Holder of the Restricted Stock Award a certificate representing the number of shares for which restrictions have lapsed, free of any restrictive legend relating to the lapsed restrictions. Each Restricted Stock Award may have a different restriction period as determined by the Committee in its sole discretion. The Committee may, in its discretion, prospectively reduce the restriction period applicable to a particular Restricted Stock Award.

7.3 Rights as Shareholder. Subject to the provisions of Sections 7.l and 10.10, the Committee may, in its discretion, determine what rights, if any, the Holder shall have with respect to the Restricted Stock Awards granted or sold, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto.

7.4 Payment of Taxes. The Committee may, in its discretion, require a Holder to pay to the Corporation (or the Corporation's Subsidiary if the Holder is an employee of a Subsidiary of the Corporation) the amount that the Committee deems necessary to satisfy the Corporation's or its Subsidiary's current or future obligation to withhold federal, state, or local income or other taxes that the Holder incurs by reason of the Restricted Stock Award. The Holder may
(a) direct the Corporation to withhold from the shares of Stock to be issued to the Holder the number of shares necessary to satisfy the Corporation's obligation to withhold taxes, that determination to be based on the shares' Fair Market Value as of the date on which tax withholding is to be made; (b) deliver to the Corporation sufficient shares of Stock (based upon the Fair Market Value as of the date of such delivery) to satisfy the Corporation's tax withholding obligations, which tax withholding obligation is based on the shares' Fair Market Value as of the later of the date of issuance or the date as of which the shares of Stock issued become includible in the income of the Holder; or (c) deliver sufficient cash to the Corporation to satisfy its tax withholding obligations. Holders who elect to have Stock withheld pursuant to (a) or (b) above must make the election at the time and in the manner that the Committee prescribes. The Committee may, in its sole discretion, deny any Holder's request to satisfy withholding obligations through Stock instead of cash. In the event the Committee subsequently determines that the aggregate Fair Market Value (as determined above) of any shares of Stock withheld or delivered as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then the Holder shall pay to the Corporation, immediately upon the Committee's request, the amount of that deficiency.

7.5 Other Agreement Provisions. The Award Agreements relating to Restricted Stock Awards shall contain such provisions in addition to those required by the Plan as the Committee may deem advisable.

SECTION 8. AWARDS TO NON-EMPLOYEE DIRECTORS

8.1 Awards to Committee Members. The full Board of Directors shall determine the number of Awards to be granted to members of the Committee, the Exercise Price and the vesting schedule thereof.

8.2 Eligible for Awards. Non-Employee Directors shall be eligible to receive any Awards under the Plan other than an Award of an Incentive Option.

SECTION 9. ADJUSTMENT PROVISIONS

9.1 Adjustment of Awards and Authorized Stock. The terms of an Award and the number of shares of Stock authorized pursuant to Section 2. 1 and Section 8 for issuance under the Plan shall be subject to adjustment from time to time, in accordance with the following provisions:

(a) If at any time, or from time to time, the Corporation shall subdivide as a whole (by reclassification, by a Stock split, by the issuance of a distribution on Stock payable in Stock, or otherwise) the number of shares of Stock then outstanding into a greater number of shares of Stock, then (i) the maximum number of shares of Stock available for the Plan as provided in Section 2.1 shall be increased proportionately, and the kind of shares or other securities available for the Plan shall be appropriately, adjusted, (ii) the number of shares of Stock (or other kind of shares or securities) that may be acquired under any Award shall be increased proportionately, and (iii) the price (including Exercise Price) for each share of Stock (or other kind of shares or securities) subject to then outstanding Awards shall be reduced proportionately, without changing the aggregate purchase price or value as to which outstanding Awards remain exercisable or subject to restrictions.

(b) If at any time, or from time to time, the Corporation shall consolidate as a whole (by reclassification, reverse Stock split, or otherwise) the number of shares of Stock then outstanding into a lesser number of shares of Stock, then (i) the maximum number of shares of Stock available for the Plan as provided in Section 2.1 shall be decreased proportionately, and the kind of shares or other securities available for the Plan shall be appropriately adjusted, (ii) the number of shares of Stock (or other kind of shares or securities) that may be acquired under any Award shall be decreased proportionately, and (iii) the price (including Exercise Price) for each share of Stock (or other kind of shares or securities) subject to then outstanding Awards shall be increased proportionately, without changing the aggregate purchase price or value as to which outstanding Awards remain exercisable or subject to restrictions.

(c) Whenever the number of shares of Stock subject to outstanding Awards and the price for each share of Stock subject to outstanding Awards are required to be adjusted as provided in this Section 9.1, the Committee shall promptly prepare a notice setting forth, in reasonable detail, the event requiring adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the change in price and the number of shares of Stock, other securities, cash, or property purchasable subject to each Award after giving effect to the adjustments. The Committee shall promptly give each Holder such a notice.

(d) Adjustments under Sections 9(a) and (b) shall be made by the Committee, and its determination as to what adjustments shall be made and the extent thereof shall be final, binding, and conclusive. No fractional interest shall be issued under the Plan on account of any such adjustments.

9.2 Changes in Control. Any Award Agreement may provide that, upon the occurrence of a Change in Control, one or more of the following apply: (a) each Holder of an Option shall immediately be granted corresponding Stock Appreciation Rights; (b) all outstanding Stock Appreciation Rights and Options shall immediately become fully vested and exercisable in full, including that portion of any Stock Appreciation Right or Option that pursuant, to the terms and provisions of the applicable Award Agreement had not yet become exercisable (the total number of shares of Stock as to which a Stock Appreciation Right or Option is exercisable upon the occurrence of a Change in Control is referred to herein as the "Total Shares"); and (c) the restriction period of any Restricted Stock Award shall immediately be accelerated and the restrictions shall expire. An Award Agreement does not have to provide for any of the foregoing. If a Change in Control involves a Restructuring or occurs in connection with a series of related transactions involving a Restructuring and if such Restructuring is in the form of a Non-Surviving Event and as a part of such Restructuring shares of stock, other securities, cash, or property shall be issuable or deliverable in exchange for Stock, then the Holder of an Award shall be entitled to purchase or receive (in lieu of the Total Shares that the Holder would otherwise be entitled to purchase or receive), as appropriate for the form of Award, the number of shares of Stock, other securities, cash, or property to which that number of Total Shares would have been entitled in connection with such Restructuring (and, for Options, at an aggregate exercise price equal to the Exercise Price that would have been payable if that number of Total Shares had been purchased on the exercise of the Option immediately before the consummation of the Restructuring). Nothing in this Section 9.2 shall impose on a Holder the obligation to exercise any Award immediately before or upon the Change of Control, or cause a Holder to forfeit the right to exercise the Award during the remainder of the original term of the Award because of a Change in Control.

9.3 Restructuring Without Change in Control. In the event a Restructuring shall occur at any time while there is any outstanding Award hereunder and the Restructuring does not occur in connection with a Change in Control or a series of related transactions involving a Change in Control, then:

(a) no outstanding Option or Stock Appreciation Right shall immediately become fully vested and exercisable in full merely because of the occurrence of the Restructuring;

(b) no Holder of an Option shall automatically be granted corresponding Stock Appreciation Rights;

(c) the restriction period of any Restricted Stock Award shall not immediately be accelerated and the restrictions expire merely because of the occurrence of the Restructuring; and

(d) at the option of the Committee, the Committee may (but shall not be required to) cause the Corporation to take any one or more of the following actions:

(i) accelerate in whole or in part the time of the vesting and exercisability of any one or more of the, outstanding Stock Appreciation Rights and Options so as to provide that those Stock Appreciation Rights and Options shall be exercisable before, upon, or after the consummation of the Restructuring;

(ii) grant each Holder of an Option corresponding Stock Appreciation Rights;

(iii) accelerate in whole or in part the expiration of some or all of the restrictions on any Restricted Stock Award;

(iv) if the Restructuring is in the form of a Non-Surviving Event, cause the surviving entity to assume in whole or in part any one or more; of the outstanding Awards upon such terms and provisions as the Committee deems desirable; or

(v) redeem in whole or in part any one or more of the outstanding Awards, (whether or not then exercisable) in consideration of a cash payment, as such payment may be reduced for tax withholding obligations as contemplated in Sections 5.9, 6.6, or 7.4, as applicable, in an amount equal to:

(A) for Options and Stock Appreciation Rights granted in connection with Options, the excess of (1) the Fair Market Value, determined as of the date immediately preceding the consummation of the Restructuring, of the aggregate number of shares of Stock subject, to the Award and as to which the Award is being redeemed over (2) the Exercise Price for that number of shares of Stock;

(B) for Stock Appreciation Rights not granted in connection with an Option, the excess of (1) the Fair Market Value, determined as of the date immediately preceding the consummation of the Restructuring, of the aggregate number of shares of Stock subject to the Award and as to which the Award is being redeemed over (2) the Fair Market Value of that number of shares of Stock on the Date of Grant; and

(C) for Restricted Stock Awards, the Fair Market Value, determined as of the date immediately preceding the consummation of the Restructuring, of the aggregate number of shares of Stock subject to the Award and as to which the Award is being redeemed.

The Corporation shall promptly notify each Holder of any election or action taken by the Corporation under this Section 9.3. In the event of any election or action taken by the Corporation pursuant to this Section 9.3 that requires the amendment or cancellation of any Award Agreement as may be specified in any notice to the Holder thereof, that Holder shall promptly deliver that Award Agreement to the Corporation in order for that amendment or cancellation to be implemented by the Corporation and the Committee. The failure of the Holder to deliver any such Award Agreement to the Corporation as provided in the preceding sentence shall not, in any manner affect the validity or enforceability of any action taken by the Corporation and the Committee under this Section 9.3, including without limitation any redemption of an Award as of the consummation of a Restructuring. Any cash payment to be made by the Corporation pursuant to this Section 9.3 in connection with the redemption of any outstanding Awards shall be paid to the Holder thereof currently with the delivery to the Corporation of the Award Agreement evidencing that Award; provided, however, that any such redemption shall be effective upon the consummation of the Restructuring notwithstanding that the payment of the redemption price may occur subsequent to the consummation. If all or any portion of an outstanding Award is to be exercised or accelerated upon or after the consummation of a Restructuring that does not occur in connection with a Change in Control and is in the form of a Non-Surviving Event, and as a part of that Restructuring shares of stock, other securities, cash, or property shall be issuable or deliverable in exchange for Stock, then the Holder of the Award shall thereafter be entitled to purchase or receive (in lieu of the number of shares of Stock that the Holder would otherwise be entitled to purchase or receive) the number of shares of Stock, other securities, cash, or property to which such number of shares of Stock would have been entitled in connection with the Restructuring (and, for Options, upon payment of the aggregate exercise price equal to the Exercise Price that would have been payable if that number of Total Shares had been purchased on the exercise of the Option immediately before the consummation of the Restructuring) and such Award shall be subject to adjustments that shall be as nearly equivalent as may be practical to the adjustments provided for in this Section 9.

9.4 Notice of Restructuring. The Corporation shall attempt to keep all Holders informed with respect to any Restructuring or of any potential Restructuring to the same extent that the Corporation's shareholders are informed by the Corporation of any such event or potential event.

SECTION 10. ADDITIONAL PROVISIONS

10.1 Termination of Employment. If a Holder is an Eligible Individual because the Holder is an Employee and if that employment relationship is terminated for any reason other than (a) that Holder's death or (b) that

Holder's Disability (hereafter defined), then any and all Awards held by such Holder in such Holder's capacity as an Employee as of the date of the termination that are not yet exercisable (or for which restrictions have not lapsed) shall become null and void as of the date of such termination; provided, however, that the portion, if any, of such Awards that are exercisable as of the date of termination shall be exercisable for a period of the lesser of (a) the remainder of the term of the Award or (b) the date which is 30 days following the date of termination. Any portion of an Award not exercised upon the expiration of the lesser of the periods specified above shall be null and void unless the Holder dies during such period, in which case the provisions of
Section 10.3 shall govern.

10.2 Other Loss of Eligibility - Non-Employees. If a Holder is an Eligible Individual because the Holder is serving in a capacity other than as an Employee and if that capacity is terminated for any reason other than the Holder's death or Disability, then that portion, if any, of any and all Awards held by the Holder that were granted because of that capacity which are not yet exercisable (or for which restrictions have not lapsed) as of the date of the termination shall become null and void as of the date of the termination; provided, however, that the portion, if any, of any and all Awards held by the Holder that are then exercisable as of the date of the termination shall be exercisable for a period of the lesser of (a) the remainder of the term of the Award or (b) 30 days following the date such capacity is terminated. If a Holder is an Eligible Individual because the Holder is serving in a capacity other than as an Employee and if that capacity is terminated by reason of the Holder's death or Disability, then the portion, if any, of any and all Awards held by the Holder that are not yet exercisable (or for which restrictions have not lapsed) as of the date of termination for death or Disability shall become exercisable (and the restrictions thereon, if any, shall lapse) and all such Awards held by that Holder as of the date of termination that are exercisable (either as a result of this sentence or otherwise) shall be exercisable for a period of the lesser of
(a) the remainder of the term of the Award or (b) the date which is 30 days following the date of termination. Any portion of an Award not exercised upon the expiration of the periods specified in (a) or (b) of the preceding two sentences shall be null and void upon the expiration of such period, as applicable.

10.3 Death. Upon the death of a Holder, any and all Awards held by the Holder that are not then exercisable (or for which restrictions have not lapsed) shall become immediately exercisable (and any restrictions shall immediately lapse) and such Awards shall be exercisable by that Holder's legal representatives, heirs, legatees, or distributees for a period of 90 days following the date of the Holder's death. Any portion of an Award not exercised upon the expiration of such period shall be null and void. Except as expressly provided in this Section 10.3, no Award held by a Holder shall be exercisable after the death of that Holder.

10.4 Disability. If a Holder is an Eligible Individual because the Holder is an Employee and if that employment relationship is terminated by reason of the Holder's Disability, then the portion, if any, of any and all Awards held by the Holder that are not then exercisable (or for which restrictions have not lapsed) shall become immediately exercisable (and any restrictions shall immediately lapse) and such Awards shall be exercisable by the Holder, his guardian or his legal representative for a period of 180 days following the date of such termination. Any portion of an Award not exercised upon the expiration of such period shall be null and void unless the Holder dies during such period, in which event the provisions of Section 10.3 shall govern. "Disability" shall have the meaning given it in the employment agreement of the Holder; provided, however, that if the Holder has no employment agreement, "Disability" shall

mean, as determined by the Board of Directors in the sole discretion exercised in good faith of the Board of Directors, a physical or mental impairment of sufficient severity that either the Holder is unable to continue performing the duties he performed before such impairment or the Holder's condition entitles him to disability benefits under any insurance or employee benefit plan of the Corporation or its Subsidiaries and that impairment or condition is cited by the Corporation as the reason for termination of the Holder's employment.

10.5 Leave of Absence. With respect to an Award, the Committee may, in its sole discretion, determine that any Holder who is on leave of absence for any reason will be considered to still be in the employ of the Corporation or any of its Subsidiaries, as applicable, for any or all purposes of the Plan and the Award Agreement of such Holder.

10.6 Transferability of Awards. In addition to such other terms and conditions as may be included in a particular Award Agreement, an Award requiring exercise shall be exercisable during a Holder's lifetime only by that Holder or by that Holder's guardian or legal representative. An Award requiring exercise shall not be transferable other than (i) by will or the laws of descent and distribution, or (ii) in accordance with the terms of the Award Agreement.

10.7 Forfeiture and Restrictions on Transfer. Each Award Agreement may contain or otherwise provide for conditions giving rise to the forfeiture of the Stock acquired pursuant to an Award or otherwise and may also provide for those restrictions on the transferability of shares of the Stock acquired pursuant to an Award or otherwise that the Committee in its sole and absolute discretion may deem proper or advisable. The conditions giving rise to forfeiture may include, but need not be limited to, the requirement that the Holder render substantial services to the Corporation or its Subsidiaries for a specified period of time. The restrictions on transferability may include, but need not be limited to, options and rights of first refusal in favor of the Corporation and shareholders of the Corporation other than the Holder of such shares of Stock who is a party to the particular Award Agreement or a subsequent Holder of the shares of Stock who is bound by that Award Agreement.

10.8 Delivery of Certificates of Stock. Subject to Section 10.9, the Corporation shall promptly issue and deliver a certificate representing the number of shares of Stock as to which (a) an Option has been exercised after the Corporation receives an Exercise Notice and upon receipt by the Corporation of the Exercise Price and any tax withholding as may be requested, (b) a Stock Appreciation Right has been exercised (to the extent the Committee determines to pay such Stock Appreciation Right in shares of Stock pursuant to Section 6.5) and upon receipt by the Corporation of any tax withholding as may be requested, and (c) restrictions have lapsed with respect to a Restricted Stock Award and upon receipt by the Corporation of any tax withholding as may be requested. The value of the shares of Stock or cash transferable because of an Award under the Plan shall not bear any interest owing to the passage of time, except as may be otherwise provided in an Award Agreement. If a Holder is entitled to receive certificates representing Stock received for more than one form of Award under the Plan, separate Stock certificates shall be issued with respect to Incentive Options and Nonstatutory Options.

10.9 Conditions to Delivery of Stock. Nothing herein or in any Award granted hereunder or any Award Agreement shall require the Corporation to issue any shares with respect to any Award if that issuance would, in the opinion of counsel for the Corporation, constitute a violation of the Securities Act or any similar or superseding statute or statutes, any other applicable statute or regulation, or the rules of any applicable securities exchange or securities association, as then in effect. At the time of any exercise of an Option or Stock Appreciation Right, or at the time of any grant of a Restricted Stock Award, the Corporation may, as a condition precedent to the exercise of such Option or Stock Appreciation Right or vesting of any Restricted Stock Award, require from the Holder of the Award (or in the event of his death, his legal representatives, heirs, legatees, or distributees) such written representations, if any, concerning the Holder's intentions with regard to the retention or disposition of the shares of Stock being acquired pursuant to the Award and such written covenants and agreements, if any, as to the manner of disposal of such shares as, in the opinion of counsel to the Corporation, may be necessary to ensure that any disposition by that Holder (or in the event of the Holder's death, his legal representatives, heirs, legatees, or distributees) will not involve a violation of the Securities Act or any similar or superseding statute or statutes, any other applicable state or federal statute or regulation, or any rule of any applicable securities exchange or securities association, as then in effect.

10.10 Certain Directors and Officers. With respect to Holders who are directors or officers of the Corporation or any of its Subsidiaries and who are subject to Section 16(b) of the Exchange Act, Awards and all rights under the Plan shall be exercisable during the Holder's lifetime only by the Holder or the Holder's guardian or legal representative, but not for at least six months after grant, unless (a) the Board of Directors expressly authorizes that an Award shall be exercisable before the expiration of the six-month period or (b) the death or Disability of the Holder occurs before the expiration of the six-month period. In addition, no such officer or director shall exercise any Stock Appreciation Right or have shares of Stock withheld to pay tax withholding obligations within the first six months of the term of an Award. Any election by any such officer or director to have tax withholding obligations satisfied by the withholding of shares of Stock shall be irrevocable and shall be communicated to the Committee during the period beginning on the third day following the date of release of quarterly or annual summary statements of sales and earnings and ending on the twelfth business day following such date (the "Window Period") or by an irrevocable election communicated to the Committee at least six months before the date of exercise of the Award for which such withholding is desired. Any election by an officer or director to receive cash in full or partial settlement of a Stock Appreciation Right, as well as any exercise by such individual of a Stock Appreciation Right for cash, in either case to the extent permitted under the applicable Award Agreement or otherwise permitted by the Committee, shall be made during the Window Period or within any other periods that the Committee shall specify from time to time.

10.11 Securities Act Legend. Certificates for shares of Stock, when issued, may have the following legend, or statements of other applicable restrictions (including, without limitation, restrictions required under any federal, state or foreign law), endorsed thereon and may not be immediately transferable:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. THE SHARES MAY NOT BE OFFERED FOR SALE, SOLD, PLEDGED, TRANSFERRED, OR OTHERWISE DISPOSED OF UNTIL THE HOLDER HEREOF PROVIDES EVIDENCE SATISFACTORY TO THE ISSUER (WHICH, IN THE DISCRETION OF THE ISSUER, MAY INCLUDE AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER) THAT SUCH OFFER, SALE, PLEDGE, TRANSFER, OR OTHER DISPOSITION WILL NOT VIOLATE APPLICABLE FEDERAL OR STATE LAWS.

This legend shall not be required for shares of Stock issued pursuant to an effective registration statement under the Securities Act.

10.12 Legend for Restrictions on Transfer. Each certificate representing shares issued to a Holder pursuant to an Award granted under the Plan shall, if such shares are subject to any transfer restriction, including a right of first refusal, provided for under this Plan or an Award Agreement, bear a legend that complies with applicable law with respect to the restrictions on transferability contained in this Section 10. 12, such as:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY IMPOSED BY THAT CERTAIN INSTRUMENT ENTITLED "INDUSTRIAL DATA SYSTEMS CORPORATION 1998 INCENTIVE PLAN" AS ADOPTED BY THE CORPORATION, AND AN AGREEMENT THEREUNDER BETWEEN THE CORPORATION AND THE INITIAL HOLDER THEREOF DATED _____,____, AND MAY NOT BE TRANSFERRED, SOLD, OR OTHERWISE DISPOSED OF EXCEPT AS THEREIN PROVIDED. THE CORPORATION WILL FURNISH A COPY OF SUCH INSTRUMENT AND AGREEMENT TO THE RECORD HOLDER OF THIS CERTIFICATE WITHOUT CHARGE ON REQUEST TO THE CORPORATION AT ITS PRINCIPAL PLACE OF BUSINESS OR REGISTERED OFFICE.

10.13 Rights as a Shareholder. A Holder shall have no right as a shareholder with respect to any shares covered by his Award until a certificate representing those shares is issued in his name. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash or other property) or distributions or other rights for which the record date is before the date that certificate is issued, except as contemplated by Section 9 hereof. Nevertheless, dividends, dividend equivalent rights and voting rights may be extended to and made part of any Award denominated in Stock or units of Stock, subject to such terms, conditions and restrictions as the Committee may establish. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividend equivalents for deferred payment denominated in Stock or units of Stock.

10.14 Furnish Information. Each Holder shall furnish to the Corporation all information requested by the Corporation to enable it to comply with any reporting or other requirement imposed upon the Corporation by or under any applicable statute or regulation.

10.15 Obligation to Exercise. The granting of an Award hereunder shall impose no obligation upon the Holder to exercise the same or any part thereof.

10.16 Adjustments to Awards. Subject to the general limitations set forth in Sections 5, 6, and 9, the Committee may make any adjustment in the Exercise Price of, the number of shares subject to, or the terms of a Nonstatutory Option or Stock Appreciation Right by canceling an outstanding Nonstatutory Option or Stock Appreciation Right and regranting a Nonstatutory Option or Stock Appreciation Right. Such adjustment shall be made by amending, substituting, or regranting an outstanding Nonstatutory Option or Stock Appreciation Right. Such amendment, substitution, or regrant may result in terms and conditions that differ from the terms and conditions of the original Nonstatutory Option or Stock Appreciation Right. The Committee may not, however, impair the rights of any Holder of previously granted Nonstatutory Options or Stock Appreciation Rights without that Holder's consent. If such action is effected by amendment, such amendment shall be deemed effective as of the Date of Grant of the amended Award.

10.17 Remedies. The Corporation shall be entitled to recover from a Holder reasonable attorneys' fees incurred in connection with the enforcement of the terms and provisions of the Plan and any Award Agreement whether by an action to enforce specific performance or for damages for its breach or otherwise.

10.18 Information Confidential. As partial consideration for the granting of each Award hereunder, the Holder shall agree with the Corporation that he will keep confidential all information and knowledge that he has relating to the manner and amount of his participation in the Plan; provided, however, that such information may be disclosed as required by law and may be given in confidence to the Holder's spouse, tax or financial advisors, or to a financial institution to the extent that such information is necessary to secure a loan. In the event any breach of this promise comes to the attention of the Committee, it shall take into consideration that breach in determining whether to recommend the grant of any future Award to that Holder, as a factor mitigating against the advisability of granting any such future Award to that Person.

10.19 Consideration. No Option or Stock Appreciation Right shall be exercisable and no restriction on any Restricted Stock Award shall lapse with respect to a Holder unless and until the Holder thereof shall have paid cash or property to, or performed services for, the Corporation or any of its Subsidiaries that the Committee believes is equal to or greater in value than the par value of the Stock subject to such Award.

SECTION 11. DURATION AND AMENDMENT OF PLAN

11.1 Duration. No Awards may be granted hereunder after the date that is ten years from the earlier of (a) the date the Plan is adopted by the Board of Directors or (b) the date the Plan is approved by the shareholders of the Corporation.

11.2 Amendment. The Board of Directors may, insofar as permitted by law, with respect to any shares which, at the time, are not subject to Awards, suspend or discontinue the Plan or revise or amend it in any respect whatsoever and may amend any provision of the Plan or any Award Agreement to make the Plan

or the Award Agreement, or both, comply with Section 16(b) of the Exchange Act and the exemptions from that Section in the regulations thereunder. The Board of Directors may also amend, modify, suspend, or terminate the Plan for the purpose of meeting or addressing any changes in other legal requirements applicable to the Corporation or the Plan or for any other purpose permitted by law. The Plan may not be amended without the consent of the holders of a majority of the shares of Stock then outstanding to (a) increase materially the aggregate number of shares of Stock that may be issued under the Plan (except for adjustments pursuant to Section 9 hereof), (b) increase materially the benefits accruing to Eligible Individuals under the Plan, or (c) modify materially the requirements about eligibility for participation in the Plan; provided, however, that such amendments may be made without the consent of shareholders of the Corporation if changes occur in law or other legal requirements (including Rule 16b-3) that would permit such changes. In connection with any amendment of the Plan, the Board of Directors shall be authorized to incorporate such provisions as shall be necessary for amounts paid under the Plan to be exempt from Section 162(m) of the Code.

SECTION 12. GENERAL

12.1 Application of Funds. The proceeds received by the Corporation from the sale of shares pursuant to Awards may be used for any general corporate purpose.

12.2 Right of the Corporation and Subsidiaries to Terminate Employment. Nothing contained in the Plan or in any Award Agreement shall confer upon any Holder the right to continue in the employ of the Corporation or any Subsidiary or interfere in any way with the rights of the Corporation or any Subsidiary to terminate the Holder's employment at any time.

12.3 No Liability for Good Faith Determinations. Neither the members of the Board of Directors nor any member of the Committee shall be liable for any act, omission or determination taken or made in good faith with respect to the Plan or any Award granted under it; and members of the Board of Directors and the Committee shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage, or expense (including attorneys' fees, the costs of settling any suit, provided such settlement is approved by independent legal counsel selected by the Corporation, and amounts paid in satisfaction of a judgment, except a judgment based on a finding of bad faith) arising therefrom to the full extent permitted by law and under any directors' and officers' liability or similar insurance coverage that may from time to time be in effect. This right to indemnification shall be in addition to, and not a limitation on, any other indemnification rights any member of the Board of Directors or the Committee may have.

12.4 Other Benefits. Participation in the Plan shall not preclude the Holder from eligibility in any other stock or stock option plan of the Corporation or any Subsidiary or any old age benefit, insurance, pension, profit sharing retirement, bonus, or other extra compensation plans that the Corporation or any Subsidiary has adopted, or may, at any time, adopt for the benefit of its Employees. Neither the adoption of the Plan by the Board of Directors nor the submission of the Plan to the shareholders of the Corporation for approval shall be construed as creating any limitations on the power of the Board of Directors to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options and the awarding of Stock and cash otherwise than under the Plan and such arrangements may be either generally applicable or applicable only in specific cases.

12.5 Exclusion From Pension and Profit-Sharing Compensation. By acceptance of an Award (regardless of form), as applicable, each Holder shall be deemed to have agreed that the Award is special incentive compensation that will not be taken into account in any manner as salary, compensation, or bonus in determining the amount of any payment under any pension, retirement, or other employee benefit plan of the Corporation or any Subsidiary, unless any pension, retirement, or other employee benefit plan of the Corporation or Subsidiary expressly provides that such Award shall be so considered for purposes of determining the amount of any payment under any such plan. In addition, each beneficiary of a deceased Holder shall be deemed to have agreed that the Award will not affect the amount of any life insurance coverage, if any, provided by the Corporation or a Subsidiary on the life of the Holder that is payable to the beneficiary under any life insurance plan covering Employees of the Corporation or any Subsidiary.

12.6 Execution of Receipts and Releases. Any payment of cash or any issuance or transfer of shares of Stock to the Holder, or to his legal representative, heir, legatee, or distributes, in accordance with the provisions hereof, shall, to the extent thereof, be in full satisfaction of all claims of such Persons hereunder. The Committee may require any Holder, legal representative, heir, legatee, or distributes, as a condition precedent to such payment, to execute a release and receipt therefor in such form as it shall determine.

12.7 Unfunded Plan. Insofar as it provides for Awards of cash and Stock, the Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Holders who are entitled to cash, Stock, or rights thereto under the Plan, any such accounts shall be used merely as a bookkeeping convenience. The Corporation shall not be required to segregate any assets that may at any time be represented by cash, Stock, or rights thereto, nor shall the Plan be construed as providing for such segregation, nor shall the Corporation nor the Board of Directors nor the Committee be deemed to be a trustee of any cash, Stock, or rights thereto to be granted under the Plan. Any liability of the Corporation to any Holder with respect to a grant of cash, Stock, or rights thereto under the Plan shall be based solely upon any contractual obligations that may be created by the Plan and any Award Agreement; no such obligation of the Corporation shall be deemed to be secured by any pledge or other encumbrance on any property of the Corporation. Neither the Corporation nor the Board of Directors nor the Committee shall be required to give any security or bond for the performance of any obligation that may be created by the Plan.

12.8 No Guarantee of Interests. Neither the Committee nor the Corporation guarantees the Stock of the Corporation from loss or depreciation.

12.9 Payment of Expenses. All expenses incident to the administration, termination, or protection of the Plan, including, but not limited to, legal and accounting fees, shall be paid by the Corporation or its Subsidiaries; provided, however, the Corporation or a Subsidiary may recover any and all damages, fees, expenses, and costs arising out of any actions taken by the Corporation to enforce its right to purchase Stock under this Plan.

12.10 Corporation Records. Records of the Corporation or its Subsidiaries regarding the Holder's period of employment, termination of employment and the reason therefore, leaves of absence, re-employment, and other matters shall be conclusive for all purposes hereunder, unless determined by the Committee to be incorrect.

12.11 Information. The Corporation and its Subsidiaries shall, upon request or as may be specifically required hereunder, furnish or cause to be furnished all of the information or documentation which is necessary or required by the Committee to perform its duties and functions under the Plan.

12.12 No Liability of Corporation. The Corporation assumes no obligation or responsibility to the Holder or his legal representatives, heirs, legatees, or distributees for any act of, or failure to act on the part of, the Committee.

12.13 Corporation Action. Any action required of the Corporation shall be by resolution of its Board of Directors or by a Person authorized to act by resolution of the Board of Directors.

12.14 Severability. In the event that any provision of this Plan, or the application hereof to any Person or circumstance, is held by a court of competent jurisdiction to be invalid, illegal, or unenforceable in any respect under present or future laws effective during the effective term of any such provision, such invalid, illegal, or unenforceable provision shall be fully severable; and this Plan shall then be construed and enforced as if such invalid, illegal, or unenforceable provision had not been contained in this Plan; and the remaining provisions of this Plan shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance from this Plan. Furthermore, in lieu of each such illegal, invalid, or unenforceable provision, there shall be added automatically as part of this Plan a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable. If any of the terms or provisions of this Plan conflict with the requirements of Rule 16b-3 (as those terms or provisions are applied to Eligible Individuals who are subject to Section 16(b) of the Exchange Act), then those conflicting terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of Rule 16b-3 and, in lieu of such conflicting provision, there shall be added automatically as part of this Plan a provision as similar in terms to such conflicting provision as may be possible and not conflict with the requirements of Rule 16b-3. If any of the terms or provisions of this Plan conflict with the requirements of Section 422 of the Code (with respect to Incentive Options), then those conflicting terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of Section 422 of the Code and, in lieu of such conflicting provision, there shall be added automatically as part of this Plan a provision as similar in terms to such conflicting provision as may be possible and not conflict with the requirements of Section 422 of the Code. With respect to Incentive Options, if this Plan does not contain any provision required to be included herein under Section 422 of the Code, that provision shall be deemed to be incorporated herein with the same force and effect as if that provision had been set out at length herein; provided, however, that, to the extent any Option that is intended to qualify as an Incentive Option cannot so qualify, that Option (to that extent) shall be deemed a Nonstatutory Option for all purposes of the Plan.

12.15 Notices. Whenever any notice is required or permitted hereunder, such notice must be in writing and personally delivered or sent by mail. Any notice required or permitted to be delivered hereunder shall be deemed to be delivered on the date on which it is actually received by the Corporation addressed to the attention of the Corporate Secretary at the Corporation's office as specified in the applicable Award Agreement. The Corporation or a Holder may change, at any time and from time to time, by written notice to the other, the address which it or he had previously specified for receiving notices. Until changed in accordance herewith, the Corporation and each Holder shall specify as its and his address for receiving notices the address set forth in the Award Agreement pertaining to the shares to which such notice relates. Any Person entitled to notice hereunder may waive such notice.

12.16 Successors. The Plan shall be binding upon the Holder, his legal representatives, heirs, legatees, and distributees, upon the Corporation, its successors and assigns and upon the Committee and its successors.

12.17 Headings. The titles and headings of Sections are included for convenience of reference only and are not to be considered in construction of the provisions hereof.

12.18 Governing Law. All questions arising with respect to the provisions of the Plan shall be determined by application of the laws of the State of Texas, without giving effect to any conflict of law provisions thereof, except to the extent Texas law is preempted by federal law. Questions arising with respect to the provisions of an award Agreement that are matters of contract law shall be governed by the laws of the state specified in the Award Agreement, except to the extent that Texas corporate law subconflicts with the contract law of such state, in which event Texas corporate law shall govern irrespective of any conflict of law laws. The obligation of the Corporation to sell and deliver Stock hereunder is subject to applicable federal, state and foreign laws and to the approval of any governmental authority required in connection with the authorization, issuance, sale, or delivery of such Stock.

12.19 Word Usage. Words used in the masculine shall apply to the feminine where applicable, and wherever the context of this Plan dictates, the plural shall be read as the singular and the singular as the plural.

SECTION 13 EFFECTIVENESS

The 1998 Incentive Plan was approved by stockholders on June 8, 1998, and subsequently amended by stockholders effective December 20, 2001, June 6, 2002, June 5, 2003, and June 16, 2005. The 1998 Incentive Plan was amended and restated by the Board of Directors of the Company effective June 8, 2006.

IN WITNESS WHEREOF, the Corporation, acting by and through its officers hereunto duly authorized, has executed this Amended and Restated 1998 Incentive Plan, to be effective as of June 8, 2006.

ENGlobal CORPORATION F/K/A
INDUSTRIAL DATA SYSTEMS CORPORATION,
a Nevada corporation

By: /S/ William A. Coskey
---------- William A. Coskey
Chairman of the Board

Exhibit 10.7

AMENDMENT NO. 1 TO THE ENGLOBAL CORPORATION
AMENDED AND RESTATED 1998 INCENTIVE PLAN

Adopted April 3, 2007

ENGlobal Corporation, a Nevada corporation (the "Corporation"), having reserved the right under Section 11 of the ENGlobal Corporation Amended and Restated 1998 Incentive Plan (the "Plan"), to amend the Plan, does hereby amend the Plan, effective as of June 14, 2007, as follows:

Section 2.1 of the Plan is amended to read in its entirety as follows:

"2.1 Maximum Number of Shares. Subject to the provisions of Section 2.2 and Section 9, the aggregate number of shares of Stock that may be issued or transferred pursuant to Awards under the Plan shall be 3,250,000. The maximum number of shares of Stock that may be issued to any one Person under the plan during one calendar year is 3,000,000."

Section 7.1(b) of the Plan is amended to read in its entirety as follows:

"(b) Conditions to Removal of Restrictions. Conditions to removal or expiration of the restrictions may include, but are not limited to, continuing employment or service as a director, officer or Key Employee, and the achievement of performance objectives described in the Award Agreement. Notwithstanding the foregoing, the performance goals upon which the payment or vesting of a Restricted Stock Award that is intended to qualify as performance-based compensation under Code Section 162(m) shall be limited to the following Performance Measures:

i. Net earnings or net income (before or after taxes);
ii. Earnings per share;
iii. Net sales or revenue growth;
iv. Net operating profit;
v. Return measures (including, but not limited to, return on assets, capital, equity, sales, or revenue);
vi. Cash flow (including, but not limited to, operating cash flow, free cash flow, cash flow return on equity, and cash flow return on investment);
vii. Earnings before or after taxes, interest, depreciation, or amortization;
viii. Gross or operating margins;
ix. Productivity ratios;
x. Share price (including, but not limited to, growth measures and total stockholder return);
xi. Expense targets;
xii. Market share;
xiii. Customer satisfaction; and
xiv. Working capital targets."

Section 13 of the Plan is amended to read in its entirety as follows:

"SECTION 13. EFFECTIVENESS

The 1998 Incentive Plan was approved by stockholders on June 8, 1998, and subsequently amended by stockholders effective December 20, 2001, June 6, 2002, June 5, 2003, June 16, 2005, and June 14, 2007. The 1998 Incentive Plan was amended and restated by the Board of Directors of the Corporation effective June 8, 2006."

Section 5.4 of the Plan is amended to read in its entirety as follows:

"5.4 Exercise Price. Each Award Agreement shall state the exercise price per share of Stock (the "Exercise Price"); provided, however, that the exercise price per share of Stock shall never be less than the greater of
(a) the par value per share of the Stock or (b) 100% of the Fair Market Value per share of the Stock on the Date of Grant of the Option."

Section 1.26 of the Plan is amended to read in its entirety as follows:

" `Non-Employee Director' means a director of the Corporation who is not a current employee of the Corporation, is not a former employee of the Corporation who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year in which the director is serving as a director of the Corporation, who has not been an officer of the Corporation, and who does not receive remuneration (including payment in exchange for goods or services) from the Corporation, either directly or indirectly, in any capacity other than as a director."

****

IN WITNESS WHEREOF, this Amendment has been executed effective as of June 14, 2007.

ENGLOBAL CORPORATION

/s/ William A. Coskey, P.E.

William A. Coskey, P.E.
Chairman of the Board and
Chief Executive Officer

Exhibit 10.8

ENGLOBAL CORPORATION 1998 INCENTIVE PLAN
INCENTIVE STOCK OPTION AWARD AGREEMENT

PART I

Optionee:	[Name]
Grant Date:	[Start Date]
Aggregate Number of Option Shares:	[Amount]
Exercise Price per Share:	[Closing Price on Start Date]
Vesting Schedule:	20% of the options granted hereunder [x,xxx] options shall vest and be exercisable on [Start Date]; and options shall thereafter vest annually, with options to acquire [x,xxx] shares vesting on December 31, 200x and the last day of each calendar year thereafter until December 31, 200x, when all remaining options granted hereunder shall be fully vested.

CERTAIN EARLY DISPOSITIONS OF SHARES PURCHASED UPON EXERCISE OF THIS OPTION (GENERALLY, SALE OF THE SHARES WITHIN TWO YEARS OF THE OPTION GRANT OR WITHIN ONE YEAR OF THE OPTION EXERCISE) MAY RESULT IN LOSS OF "INCENTIVE STOCK OPTION" TREATMENT. EXERCISE OF THIS OPTION MAY RESULT IN ALTERNATIVE MINIMUM TAX. THE COMPANY RECOMMENDS THAT OPTIONEE CONSULT WITH HIS OR HER PERSONAL TAX ADVISOR PRIOR TO EXERCISING ANY OPTIONS AND TO ESTABLISH AN EXERCISE PROGRAM TO MINIMIZE THE OPTIONEE'S TAX LIABILITY.

Part II of this Agreement is attached hereto and incorporated herein for all purposes.

EXECUTED to be effective as of the Grant Date set forth above.

ENGLOBAL CORPORATION F/K/A INDUSTRIAL
DATA SYSTEMS CORPORATION

By:

Name: William A. Coskey Title: Chairman of the Board

OPTIONEE

[Name]

Address:

PART II

This Incentive Stock Option Award Agreement (this "Agreement") is made and entered into by and between ENGLOBAL CORPORATION , a Nevada corporation f/k/a Industrial Data Systems Corporation (the "Company"), and the optionee named on

Part I (the "Optionee"), as of the date set forth on Part I (the "Grant Date").

RECITALS:

The Company has adopted the 1998 INCENTIVE PLAN (the "Plan") to provide an incentive for key employees, consultants and directors of the Company or its Subsidiaries to remain in the service of the Company or its Subsidiaries, to extend to them the opportunity to acquire a proprietary interest in the Company so that they will apply their best efforts for the benefit of the Company and its Subsidiaries, and to aid the Company in attracting able persons to enter the service of the Company and its Subsidiaries;

The Board of Directors of the Company (or the Compensation Committee of the Company, if one has been authorized to administer the Plan by the Company's Board of Directors (the "Committee")), believes that the granting of the stock options herein described to the Optionee is consistent with the purposes for which the Plan was adopted;

NOW, THEREFORE, in consideration of the mutual covenants and conditions set forth in this Agreement and for other good and valuable consideration, the Company and the Optionee agree as follows:

1. Grant of the Option. The Company hereby grants to the Optionee the right and option (the "Option") to purchase the aggregate number of shares set forth on Part I (such number being subject to adjustment as provided herein) of common stock, $.001 par value per share, of the Company (the "Shares") on the terms and conditions set forth in this Agreement. The Option awarded under this Agreement may be exercised in whole or in part and from time to time, subject to the terms and conditions of this Agreement and of the Plan. The Option granted under this Agreement is intended to qualify as an "incentive stock option" under Section 422 of the Code (or "ISO") and shall be so construed; provided, however, that the Company makes no representation or warranty that such Option qualifies as an ISO and shall bear no liability in the event that such Option fails to qualify as an ISO.

2. Exercise Price. The price at which the Optionee shall be entitled to purchase the Shares covered by the Option shall be the price per Share set forth on Part I subject to adjustment as provided in paragraph 9.

3. Vesting and Term of the Option.

(a) General. The right to exercise the Option shall vest in the hands of the Optionee in accordance with the provisions of Part I. Options which shall have vested shall be referred to as "Vested Options." Options which shall not have vested shall be referred to as "Nonvested Options." The respective numbers of Vested and Nonvested Options shall adjust proportionately in accordance with any adjustments to the number of Shares pursuant to paragraph 9. In addition, Options may become Vested Options in accordance with paragraph 7 or Section 9 of the Plan. In general, Nonvested Options may become Vested Options only if the Optionee has been continuously employed as a full-time employee of the Company or any Subsidiary from the Grant Date to and including the last date of the month with respect to which such Options may vest pursuant to Part I.

(b) Exercisable for Vested Options Only. Subject to the relevant provisions and limitations contained herein, the Optionee may exercise the Option to purchase some or all of the Vested Options. In no event shall the Optionee be entitled to exercise the Option with respect to Nonvested Options or a fraction of a Vested Option.

(c) Expiration. Notwithstanding any other provision contained herein to the contrary, the unexercised portion of the Option, if any, will automatically and without notice terminate upon the earlier of (i) ten years following the Grant Date (provided, however, that any portion of the Option which shall not become exercisable until the tenth anniversary of the Grant Date may be exercisable for a period of 30 days preceding the tenth anniversary of the Grant Date) or (ii) the date determined pursuant to paragraph 7. The Option will cease to be exercisable with respect to a Share when the Optionee purchases the Share.

(d) Change in Control. In the event of a Change in Control as defined in the Plan, the Company may, with respect to this Option, in its sole discretion, take any one or more of the actions described in Section 9.2 of the Plan.

4. Method of Exercising Option. The Optionee may exercise the Option at any time prior to the termination of the Option with respect to all or any part of the Vested Options. Subject to the terms and conditions of this Agreement, the Option may be exercised by timely delivery to the Company of a written notice in the form attached hereto as Exhibit A (the "Exercise Notice"), which Exercise Notice shall be effective, subject to the requirements of this Agreement and of the Plan, on the date received by the Company. The Exercise Notice shall state the Optionee's election to exercise the Option, the number of Vested Options in respect of which an election to exercise has been made, the method of payment elected (see paragraph 5), the exact name or names in which the Shares then being purchased will be registered and the social security number of the Optionee. The Exercise Notice must be signed by the Optionee and must be accompanied by payment of the aggregate Exercise Price of the Shares then being purchased, determined in accordance with paragraph 2. If the Option must be exercised by a person or persons other than the Optionee pursuant to paragraph 7, the Exercise Notice must be signed by such other person or persons and must be accompanied by proof acceptable to the Company of the legal right of such person or persons to exercise the Option. If the Option is exercised by a person other than the Optionee, the Shares issued upon such exercise shall be subject to the limitations applicable to such Shares in the hands of the Optionee. All Shares delivered by the Company upon exercise of the Vested Options as provided in this Agreement shall be fully paid and nonassessable upon delivery. Unless the Shares issued upon the exercise of the Vested Options are then the subject of a registration statement effective under the Securities Act (and, if required, there is available for delivery a prospectus meeting the requirements of Section 10(a)(3) of the Securities Act), the delivery of the Exercise Notice shall be deemed to be the making by the person delivering such Exercise Notice of the representations, acknowledgments and agreements which would be contained in the Investment Letter referred to in paragraph 10.

5. Method of Payment for Options. Unless otherwise permitted by the Committee in accordance with the Plan, the full Exercise Price for the Shares purchased upon the exercise of the Vested Options (i.e., the number of Shares being purchased multiplied by the Exercise Price per Share) must be made in cash. The Company will accept payment by cashier's check or by personal check, provided that if such personal check is returned for insufficient funds, payment for the Shares and for any applicable taxes required to be withheld by the Company shall be deemed not to have occurred. In addition, the Option shall not be deemed to be exercised until the Optionee has provided payment for any withholding taxes which may be due with respect to such exercise.

6. Delivery of Shares. No Shares shall be delivered to the Optionee upon exercise of the Option until (a) the Exercise Price for such Shares being purchased is paid in full in the manner provided in this Agreement; (b) all the applicable taxes required to be withheld have been paid or withheld in full; (c) approval of any governmental authority required in connection with the Option, or the issuance of Shares pursuant to this Agreement has been received by the Company; and (d) if required by the Committee, the Optionee has delivered to the Committee an Investment Letter in form and content satisfactory to the Company as provided in paragraph 10.

7. Termination of Employment. If the Optionee's employment relationship with the Company is terminated for any reason other than (a) the Optionee's death or (b) the Optionee's Disability as defined in Section 10.4 of the Plan, then any and all Options held pursuant to this Agreement as of the date of the termination that are not yet exercisable (or for which restrictions have not lapsed) shall become null and void as of the date of such termination; provided, however, that the portion, if any, of such Options that are exercisable as of the date of termination shall be exercisable for a period of the lesser of (a) the remainder of the term of the Option or (b) the date which is 30 days after the date of termination. Any portion of an Option not exercised upon the expiration of the lesser of the period specified above shall be null and void unless the Optionee dies during such period, in which case the provisions of paragraph 7(a) shall govern.

(a) Death. Upon the death of the Optionee, any and all Options held by the Optionee pursuant to this Agreement that are not yet exercisable (or for which restrictions have not lapsed) as of the date of the Optionee's death shall become exercisable as provided below and any restrictions shall immediately lapse as of the date of death; provided, however, that the Options held by the Optionee as of the date of death shall be exercisable by that Optionee's legal representatives, heirs, legatees, or distributees for a period of 90 days following the date of the Optionee's death. Any portion of an Option not exercised upon the expiration of such period shall be null and void. Except as expressly provided in this paragraph, no Option held by an Optionee shall be exercisable after the death of that Optionee.

(b) Disability. If the Optionee's employment relationship is terminated by reason of the Optionee's Disability, then the portion, if any, of any and all Options held by the Optionee that are not yet exercisable (or for which restrictions have not lapsed) as of the date of that termination for Disability shall become exercisable as provided below and any restrictions shall immediately lapse as of the date of termination; provided, however, that the Options held by the Optionee as of the date of that termination shall be exercisable by the Optionee, his guardian or his legal representative for a period of 90 days following the date of such termination, unless the Optionee is permanently and totally disabled as defined in the Plan, in which case the Options may be exercisable by the Optionee, his guardian or his legal representative for a period of one year following the date of termination. Any portion of an Option not exercised upon the expiration of such period shall be null and void unless the Optionee dies during such period, in which event the provisions of paragraph 7(a) shall govern.

8. Nontransferability. The Option granted by this Agreement shall be exercisable only during the period specified in paragraph 3 and, except as provided in paragraph 7, only by the Optionee during his or her lifetime and while an employee of the Company. No Option granted by this Agreement is transferable by the Optionee other than by will or pursuant to applicable laws of descent and distribution. The Option, and any rights and privileges in connection therewith, cannot be transferred, assigned, pledged or hypothecated by the Optionee, or by any other person or persons, in any way, whether by operation of law, or otherwise, and may not be subject to execution, attachment, garnishment or similar process. In the event of any such occurrence, this Agreement will automatically terminate and will thereafter be null and void.

9. Adjustments. If there is any change in the capital structure of the Company through merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares or similar event (a "Restructuring"), the rights of the Optionee shall be adjusted as provided in
Section 9 of the Plan. Nothing in this Agreement or in the Plan shall affect in any way the right or power of the Company to make or authorize any Restructuring.

10. Securities Act. The Company will not be required to deliver any Shares pursuant to the exercise of all or any part of the Option if, in the opinion of counsel for the Company, such issuance would violate the Securities Act or any other applicable federal or state securities laws or regulations. The Committee may require that the Optionee, prior to the issuance of any such Shares pursuant to exercise of the Option, sign and deliver to the Company a written statement (an "Investment Letter") stating that (a) the Optionee is purchasing the Shares for his own account and not with a view to, or for sale in connection with, any distribution thereof, he has no present or contemplated agreement, undertaking, arrangement, obligation, indebtedness or commitment providing for the disposition thereof and he does not currently have any reason to anticipate a change in the foregoing; (b) the Optionee understands that the Shares have not been registered under the Securities Act or any applicable state securities laws or regulations and, therefore, cannot be offered or resold unless the Shares are so registered or an applicable exemption from registration is available; and (c) the Optionee agrees that the certificates representing the Shares may bear a legend to the effect set forth in clause (b) above. The Investment Letter must be in form and substance acceptable to the Committee in its sole discretion.

11. Notice. All notices required or permitted under this Agreement, including an Exercise Notice, must be in writing and personally delivered or sent by mail and shall be deemed to be delivered on the date on which actually received by the Company properly addressed to the person who is to receive it. An Exercise Notice shall be effective when actually received by the Company, in writing and in conformance with this Agreement and the Plan. Until changed in accordance herewith, the Company and the Optionee specify their respective addresses as set forth below:

Company: ENGlobal Corporation
654 N. Sam Houston Parkway E., Suite 400
Houston, Texas 77060-5914
Attention: Chief Governance Officer

Optionee: As indicated on Part I hereto.

12. Information Confidential. As partial consideration for the granting of this Option, the Optionee agrees that he will keep confidential all information and knowledge that he or she has relating to the manner and amount of his participation in the Plan; provided, however, that such information may be disclosed as required by law and may be given in confidence to the Optionee's spouse, tax and financial advisors, or a financial institution to the extent that such information is necessary to obtain a loan.

13. Definitions; Copy of Plan. To the extent not specifically provided in this Agreement or otherwise required by context, all capitalized terms used in this Agreement but not defined herein shall have the same meanings ascribed to them in the Plan. By the execution of this Agreement, the Optionee acknowledges that he has received and reviewed a copy of the Plan.

14. Administration. This Agreement is subject to the terms and conditions of the Plan. The Plan will be administered by the Board of Directors and by the Committee in accordance with its terms. The Committee has sole and complete discretion with respect to all matters reserved to it by the Board of Directors of the Company and by the Plan, and decisions of the Board of Directors and of the Committee with respect to the Plan and this Agreement shall be final and binding upon the Optionee. If a conflict between the terms and conditions of this Agreement and the Plan exists, the provisions of the Plan shall control.

15. Arbitration. Any legal or equitable claims or disputes between Optionee and the Company, including without limitation, those arising out of or in connection with the employment, or the termination of employment, of Optionee by the Company (other than a suit for injunctive relief) will be resolved exclusively by binding arbitration. This Agreement applies to the following allegations, disputes, and claims for relief, but is not limited to those listed: wrongful discharge under statutory law and common law; employment discrimination based on federal, state, or local statute, ordinance, or governmental regulation; retaliatory discharge or other action; compensation disputes; tortious conduct; contractual violations (although no contractual relationship, other than at will employment and this Agreement and agreement to arbitrate, is hereby created); ERISA violations; and other statutory and common law claims and disputes.

The arbitration proceedings shall be conducted in Austin, Texas in accordance with the Employment Dispute Resolution Rules ("EDR Rules") of the American Arbitration Association ("AAA") in effect at the time a demand for arbitration is made. Optionee is entitled to representation by an attorney throughout the proceedings at his own expense; however, the Company agrees not to use an attorney in the arbitration hearing if the Optionee agrees to the same.

One arbitrator shall be used and shall be chosen by mutual agreement of the parties. If, within 30 days after the Optionee notifies the Company of an arbitrable dispute, no arbitrator has been chosen, an arbitrator shall be chosen from a list or lists of proposed arbitrators submitted by the AAA pursuant to its EDR Rules, except that (a) the number of preemptory strikes shall not be limited, and (b) if the parties fail to select an arbitrator from one or more lists, AAA shall not have the power to appoint the arbitrator but shall continue to submit lists until the arbitrator has been selected. The arbitrator shall coordinate, and limit as appropriate, all pre-arbitral discovery, which shall include document production, information requests, and depositions. The arbitrator shall issue a written decision and award stating the reasons therefor. The decision and award shall be final and binding on both parties, their heirs, executors, administrators, successors, and assigns. The costs and expenses of the arbitration shall be borne evenly by the parties.

16. No Guarantee of Continuation of Employment. This Agreement shall not be construed to confer upon the Optionee any right to continue in the employ of the Company or its Subsidiaries and shall not limit the right of the Company or its Subsidiaries, in their sole discretion, to terminate the employment of the Optionee at any time, with or without cause. The parties' employment relationship is at will, and no other inference is to be drawn from this Agreement. The Company may, at any time and from time to time, cause Optionee to be employed by any entity that is a Subsidiary or Affiliate. Either party may terminate the employment relationship at any time for any or no reason. Any agreement abrogating the at will relationship must be in writing and signed by both Optionee and the Company.

17. No Obligation to Exercise. The Optionee shall have no obligation to exercise any Option granted by this Agreement.

18. Governing Law; Construction. This Agreement shall be governed by the laws of the State of Texas without regard to choice of law and conflicts of law principles. Titles and headings are for case of reference only and shall not be considered in construing this Agreement. Pronouns shall be deemed to include the masculine, feminine, neuter, singular and plural as the context may require. References to paragraphs and exhibits are to paragraphs and Exhibits of this Agreement unless otherwise indicated. All such Exhibits are incorporated in this Agreement by reference and are a part hereof.

19. Amendments. This Agreement may be amended only by a written agreement executed by the Company and the Optionee.

20. Proprietary Information. In consideration of the Company's grant of this Option and the Company's agreement to provide Optionee with confidential information of the Company, Optionee agrees to keep confidential and not to use or to disclose to others at any time during the term of this Agreement or after its termination, except as expressly consented to in writing by the Company or required by law, any secrets or confidential technology or proprietary information of the Company, including, without limitation, any customer list, marketing plans or materials, or other trade secrets of the Company, or any matter or thing ascertained by Optionee through Optionee's affiliation with the Company, the use or disclosure of which matter or thing might reasonably be construed to be contrary to the best interests of the Company or to give any other party a competitive advantage to the Company. Optionee further agrees that should Optionee leave the employment of the Company, Optionee will neither take nor retain, without prior written authorization from the Company, any documents pertaining to the Company (other than paycheck stubs, benefit information, offer letters, or other materials pertaining to his salary or benefits with the Company). Without limiting the generality of the foregoing, Optionee agrees that he will not retain, use or disclose any papers, customer lists, marketing materials or information, books, records, files, or other documents, copies thereof, or notes or other materials derived therefrom, or other confidential information of any kind belonging to the Company pertaining to the Company's business, sales, financial condition, or products. Without limiting other possible remedies to the Company for the breach of this covenant, Optionee agrees that injunctive or other equitable relief shall be available to enforce this covenant, such relief to be without the necessity of posting a bond, cash, or otherwise. Optionee further agrees that if any restriction contained in this paragraph is held by any court to be unenforceable or unreasonable, a lesser restriction shall be enforced in its place and remaining restrictions contained herein shall be enforced independently of each other. Optionee's obligations under this paragraph apply to all confidential information of the Company as well as to any and all confidential information relating to the Company's Subsidiaries and Affiliates.

21. Noncompetition.

(a) Basis of Covenants. The Company's business involves consulting services which are provided to the pipeline and process industries for development and management and turnkey execution of engineering projects. The Company also manufactures products which include industrially hardened PC based computers, conditioned power systems, and HVAC equipment. Optionee recognizes that the Company's decision to enter into this Agreement and to grant the Option herein granted is induced primarily because of the covenants and assurances made by Optionee in this Agreement, that irrevocable harm and damage will be done to the Company if Optionee violates the obligation to maintain the confidentiality of proprietary information, or competes with the Company. Optionee stipulates and agrees that the consideration given by the Company in granting this Option and in granting Optionee access to the confidential information of the Company gives rise to the Company's interest in the promises made by Optionee in this paragraph; further, Optionee stipulates that the promises Optionee makes in this paragraph are designed to enforce the promises made by Optionee, including those set forth in paragraph 20. Optionee will continue to receive the Company's proprietary information and will receive training of substantial value as a result of his affiliation with the Company.

(b) Noncompetition Covenant. Optionee agrees that during the term of this Agreement, Optionee shall not, directly or indirectly, as an employee, employer, contractor, consultant, agent, principal, shareholder, corporate officer, director, or in any other individual or representative capacity, engage or participate in any business or practice that is in competition in any manner whatsoever with the business of the Company.

(c) Non-Interference Covenant. Optionee covenants and agrees that, for a period of one year subsequent to the termination, for whatever reason, of his employment with the Company, that Optionee shall not recruit, hire or attempt to recruit or hire, directly or by assisting others, any other employees of the Company, nor shall Optionee contact or communicate with any other employees of the Company for the purpose of inducing other employees to terminate their employment with the Company. For purposes of this covenant, "other employees" means employees who are actively employed by the Company at the time of the attempted recruiting or hiring.

(d) Remedies.

(i) This covenant shall be construed as an agreement ancillary to the other provisions of this Agreement and the existence of any claim or cause of action of Optionee against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of this covenant. Without limiting other possible remedies to the Company for breach of this covenant, Optionee agrees that injunctive or other equitable relief will be available to enforce the covenants of this provision, such relief to be without the necessity of posting a bond, cash, or otherwise.

(ii) If Optionee violates any of the covenants of this paragraph 21, the one-year term of the restriction violated shall be extended by the amount of time that Optionee was in violation.

(iii) The Company and Optionee further agree that if any restriction contained in this paragraph 21 is held by any appropriate forum to be unenforceable or unreasonable, a lesser restriction will be enforced in its place and remaining restrictions contained herein will be enforced independently of each other. Optionee agrees to pay any attorneys' fees and expenses incurred by the Company if the Company chooses, in its sole discretion, to enforce any provision hereunder.

(iv) If Optionee violates paragraph 20 or 21 of this Agreement at a time that he holds Options, the Options shall be immediately cancelled and shall have no further force and effect. In addition, if Optionee violates paragraph 20 or 21 of this Agreement following his exercise of Options, he shall forfeit to the Company an amount equal to the difference between the fair market value (determined in accordance with paragraph 22 (f)) on the date of exercise for each Option exercised and the Exercise Price. This amount shall be paid to the Company in addition to payment of all other damages that the Company has suffered as a result of Optionee's breach and in addition to all other relief to which the Company is entitled under this Agreement and under applicable law.

22. Termination. The Company may terminate the Plan at any time; however, such termination will not modify the terms and conditions of the Option awarded under this Agreement without the Optionee's consent.

23. No Rights as a Shareholder. Optionee shall not by virtue of this Agreement, have any rights as a shareholder until the date of the issuance to the Optionee of Shares pursuant to a valid Exercise Notice.

24. Severability. If any provision of this Agreement is held by final judgment of a court of competent jurisdiction to be invalid, illegal or unenforceable, such invalid, illegal or unenforceable provision shall be severed from the remainder of this Agreement, and the remainder of this Agreement shall be enforced. In addition, the invalid, illegal or unenforceable provision shall be deemed to be automatically modified, and, as so modified, to be included in this Agreement, such modification being made to the minimum extent necessary to render the provision valid, legal and enforceable. Notwithstanding the foregoing, however, if the severed or modified provision concerns all or a portion of the essential consideration to be delivered under this Agreement by one party to the other, the remaining provisions of this Agreement shall also be modified to the extent necessary to equitably adjust the parties' respective rights and obligations hereunder.

25. Entire Agreement. Except as provided below, this Agreement, including the exhibits and schedules attached hereto, if any, contains the entire agreement of the parties with respect to the subject matters hereto, and supersedes all prior agreements between them, whether oral or written, of any nature whatsoever with respect to the subject matter hereof. However, this Agreement does not supersede the Company's rights under any agreement between Optionee and the Company that (i) protects the Company's proprietary information or intellectual property, or (ii) prohibits Optionee from competing with the Company or soliciting the Company's customers, suppliers or employees; rather all such rights of the Company under any such agreements shall be in addition to the rights granted herein. In addition, if the Company and Optionee have entered into a separate agreement concerning arbitration of claims, the Company shall elect, within 10 days of notice from Optionee of a claim to be arbitrated, whether any such arbitration shall be governed by the provisions of this Agreement or of such separate agreement.

* * * * *

EXHIBIT A

EXERCISE NOTICE

Notice is hereby given to the Company of Optionee's election to exercise Options as follows:

Name of Optionee (please print):
Optionee's Social Security Number:

Note: For Incentive Stock Options, complete only items A through D in chart below.

A. Number of Shares to be purchased:	
B. Exercise Price per Share:	$
C. Method of payment (check one):	___ Cash (attach check) ___ Cashless (contact your broker) ___ Other- as authorized by Committee as follows:
D. Exercise Price tendered herewith: (A x B)	$
E. Market Price per Share on date of Exercise:	$
F. Difference Between Market Price and Exercise Price (E - B):	$
G. Total Difference (F x A):	$
H. Withholding Tax Rate:	28%*
I. Amount of Tax Withholding tendered herewith (G x H):	$
J. Total Amount Due on Exercise (D + I):	$

*Upon exercise of Options, the Company may collect 28% withholding tax (or the then applicable amount) of the difference between the market value of the Shares on the day of the exercise less the exercise price (the "difference"). This difference will be included on a Form 1099 issued to the Optionee following the end of the year.

Exact name(s) for Share certificate(s):

Date:

Signature of Optionee

PLEASE COMPLETE AND SIGN THIS NOTICE AND RETURN IT TO:

ENGlobal Corporation
654 N. Sam Houston Parkway E., Suite 400
Houston, Texas 77060-5914

Attn: Chief Governance Officer 281-878-1000
Fax: 281-878-1011

Exhibit 10.11

CITYPLEX TOWERS LEASE AGREEMENT

THIS LEASE AGREEMENT (the "Lease") is made and entered into on this the 27th day of January, 2005, between Oral Roberts University, an Oklahoma corporation ("Landlord") and ENGlobal Engineering, Inc., a Texas corporation ("Tenant").

WITNESSETH:

1. Definitions.

(a) "Project" shall mean the real property described in Exhibit "A" attached hereto and made a part hereof and the improvements constructed thereon.

(b) "Building" shall mean the CityPlex Towers Building, located on the real property described in Exhibit "A" attached hereto and made a part hereof which has a street address of 2408, 2448 and 2488 E. 81st Street, Tulsa, Oklahoma 74137.

(c) "Premises" shall mean the suite of offices outlined on the floor plan attached to this Lease as Exhibits "B", "B-l, B-2, B-3 and B-4, attached hereto and made a part hereof which has a street address of 2448 E. 81st St., Suite 3300, Tulsa, Oklahoma, 74137. The Premises are stipulated for all purposes to contain approximately 50,631 square feet of "Net Rentable Area" (as hereafter defined). The Premises are located in the Building.

(d) "Base Rental" shall mean the sum of $491,120.70 per annum as adjusted under Paragraph 29 hereof. The Base Rental due for the first month of the Lease Term (as hereafter defined) has been deposited with Landlord by Tenant contemporaneously with the execution hereof.

(e) "Commencement Date" shall mean September 1, 2005, except as such date may be delayed pursuant to the provisions of Paragraph 3(c) hereof.

(f) "Lease Term" shall mean the term commencing on the Commencement Date and continuing until 29 months after the first day of the first full month following the Commencement Date.

(g) "Security Deposit" shall mean the sum of $22,300.00. The security deposit has been deposited with Landlord by Tenant contemporaneously with the execution hereof.

(h) "Building Common Areas" shall mean those areas devoted to lobbies and entryways.

(i) "Common Areas" shall mean the Building Common Areas and corridors, elevator foyers, restrooms, mechanical rooms, janitorial closets, electrical and telephone closets, vending areas and other similar facilities provided for the common use or benefit of tenants generally and/or the public.

(j) "Single Floor Common Areas" shall mean that part of the Common Areas located on a designated floor.

(k) "Service Areas" shall mean those areas within the outside walls of the Building used for elevator mechanical rooms, building stairs, fire towers, elevator shafts, flues, vents, stacks, pipe shafts and vertical ducts (but shall not include any such areas for the exclusive use of a particular Tenant).

(1) "Net Rentable Area" of one floor of the Building shall mean the gross area within the inside surface of the outer glass or other material comprising the exterior walls of the Building to the Common Areas or Service Areas side of walls separating the Common Areas and Service Areas from any other areas of the floor.

(m) "Net Rentable Area of the Building" shall mean the total of the Net Rentable Area of all floors of the Building.

(n) "Net Rentable Area of the Premises" shall mean the gross area within the inside surface of the outer glass or other material comprising the exterior walls of the Premises to the mid-point of any walls separating portions of the Premises from those of adjacent tenants and to the Common Areas or Service Areas side of walls separating the Premises from Common Areas and Service Areas, subject to the following:

(1) Net Rentable Area of the Premises shall not include any Service Areas.

(2) Net Rentable Area of the Premises shall include a pro rata part of the Building Common Areas plus a pro rata part of the Single Floor Common Areas on the floor on which the Premises are located, such prorations based upon an allocation to each floor of the Building of Building Common Areas (based upon the Net Rentable Area of each floor and the Net Rentable Area of the Building, exclusive of Building Common Areas) and upon the ratio of the Net Rentable Area of the Premises to the total Net Rentable Area of such floor.

(3) Net Rentable Area of the Premises shall include any columns and/or projection(s), which protrude into the Premises and/or the Common Areas.

(o) "Basic Costs" intentionally omitted.

(p) "Exterior Common Areas" shall mean those areas of the Project which are not located within the Building and which are provided and maintained for the common use and benefit of Landlord and Tenants of the Building generally and the employees, invitees and licensees of Landlord and such Tenants; including without limitation all parking areas, enclosed or otherwise, all streets, sidewalks and landscaped areas located within the Project.

(q) "Tenant Improvements", when used herein, shall mean those improvements to the Premises which Landlord has agreed to provide pursuant to the plans and specifications ("Plans") attached (or to be attached) hereto as Exhibit "C" and made a part hereof. In the event the Plans are not attached to this Lease as of the date of execution hereof, this Lease shall terminate, at Landlord's option, on the day next following the 14th day from the date hereof unless Landlord and Tenant initial and attach the Plans to this Lease on or before such date. Landlord's approval of and initialing of any plans and specifications shall be at Landlord's sole discretion. All Tenant Improvements shall be made and constructed only by Landlord or Landlord's designee. Except to the extent otherwise agreed (and described on an addendum to the Plans), the making and constructing of the Tenant Improvements shall be at Tenant's expense. "Building Standard" shall mean the type, brand and/or quality of materials Landlord designates from time to time to be the minimum quality to be used in the Building or the exclusive type, grade or quality of material to be used in the Building.

2. Lease Grant. Subject to and upon the terms herein set forth, Landlord leases to Tenant and Tenant leases from Landlord the Premises.

3. Lease Term.

(a) This Lease shall continue in force during a period beginning on the Commencement Date and continuing until the expiration of the Lease Term, unless this Lease is sooner terminated or extended to a later day under any other term or provision hereof.

(b) If by the date specified in Paragraph l(e) the Tenant Improvements have not been substantially completed pursuant to the Plans due to omission, delay or default by Tenant or anyone acting under or for Tenant, Landlord shall have no liability as a result of such noncompletion and the obligations of this Lease (including without limitation, the obligation to pay rent) shall nonetheless commence as of the Commencement Date.

(c) If, however, the Tenant Improvements are not substantially completed due to any reason other than an omission, delay or default by Tenant or someone acting under or for Tenant, then, as Tenant's sole remedy for the delay in Tenant's occupancy of the Premises, the Commencement Date shall be delayed and the rent herein provided shall not commence until the earlier to occur of actual occupancy by Tenant or substantial completion of the Tenant Improvements.

4. Use. The Premises shall be used for office purposes and for no other purpose. Tenant agrees not to use or permit the use of the Premises for any purpose which is illegal including the sale, directly or indirectly, of

pornographic material, or the sale of any other product or service which, in Landlord's judgement, creates a nuisance or which would increase the cost of insurance coverage with respect to the Project or the Building.

5. Base Rental.

(a) Tenant agrees to pay to Landlord during the Lease Term, without any setoff or deduction whatsoever, the Base Rental and all such other sums of money as shall become due hereunder as additional rent, all of which are sometimes herein collectively called "rent", for the nonpayment of which Landlord shall be entitled to exercise all such rights and remedies as are herein provided in the case of the nonpayment of Base Rental. The annual Base Rental for each calendar year or portion thereof during the Lease Term, together with any estimated adjustments thereto pursuant to Paragraphs 20, 21, and 29 hereof, shall be due and payable in advance in equal monthly installments on the first day of each calendar month during the Lease Term and any extensions or renewals thereof, and Tenant hereby agrees to pay such Base Rental and any adjustments thereto to Landlord at Landlord's address provided herein (or such other address in Tulsa County as may be designated by Landlord in writing from time to time) monthly, in advance, and without demand. If the Lease Term commences on a day other than the first day of a calendar month or terminates on a day other than the last day of a calendar month, then the installments of Base Rental and any adjustments thereto for such month or months shall be prorated, based on the number of days in such month.

(b) In the event any installment of rent is not paid when due and payable, Tenant shall pay a late charge of $25.00 per day for each day of delinquency.

6. Basic Cost Increase Adjustment. Intentionally omitted.

7. Services to be Furnished by Landlord. Landlord agrees to furnish Tenant the following services:

(a) Hot and cold water at those points of supply provided for general use of tenants in the Building on the floor(s) on which the Premises are located and central heat and air conditioning in the Premises in season, at such temperatures and in such amounts as are reasonably considered by Landlord to be standard or as required by governmental authority. Landlord shall provide heating, air-conditioning, utilities, and electricity twenty-four (24) hours per day, seven (7) days per week.

(b) Routine maintenance and electric lighting service for all Exterior Common Areas, Building Common Areas, Single Floor Common Areas on the floor on which the Premises are located, and Service Areas in the manner and to the extent deemed by Landlord to be standard.

(c) Janitor service in the Premises, Monday through Friday, exclusive of normal business holidays; provided, however, if Tenant's floor covering or other improvements require special treatment, Tenant shall pay the additional cleaning cost attributable thereto as additional rent upon presentation of a statement therefor by Landlord. Tenant shall cooperate with Landlord's employees in the furnishing by Landlord of janitorial services at such times (including Normal Business Hours) as Landlord elects to have the necessary work performed; provided, however, that janitorial services performed by Landlord during Normal Business Hours shall be performed in such a manner as to not interfere unreasonably with Tenants use of the Premises.

(d) Subject to the provisions of Paragraph 13, facilities to provide all electrical current required by Tenant in its use and occupancy of the Premises.

(e) All Building Standard fluorescent bulb replacement in the Premises and fluorescent and incandescent bulb replacement in the Building Common Areas, Single Floor Common Areas on the floor on which the Premises are located, and Service Areas.

(f) Landlord may elect to provide security in the form of limited access to the Building during other than Normal Business Hours. In such event Landlord may require those tenants requesting access to the Building during other than Normal Business Hours to pay a fee for access to partially reimburse Landlord for the cost of the system which limits after-hours access. Landlord, however, shall have no liability to Tenant, its employees, agents, invitees or licensees for losses due to theft or burglary, or for damages done by unauthorized persons on the Premises and Landlord shall not be required to insure against any such losses. Tenant shall (a) cooperate fully in Landlord's efforts to maintain security in the Building and shall follow all regulations promulgated by Landlord with respect thereto.

The failure by Landlord to any extent to furnish these services or the interruption or termination of these defined services in whole or in part, resulting from causes beyond the reasonable control of Landlord shall neither render Landlord liable in any respect nor be construed as an eviction of Tenant, nor work an abatement of rent, nor relieve Tenant from the obligation to fulfill any covenant or agreement hereof. Should any of the equipment or machinery used in the provision of such services for any cause cease to function properly, Tenant shall have no claim for offset or abatement of rent or damages on account of an interruption in service occasioned thereby or resulting therefrom.

8. Tenant Improvements to be Made by Landlord. Except for those of the Tenant Improvements to be at Landlord's cost, all installations and improvements now or hereafter placed on the Premises shall be for Tenant's account and at Tenant's cost (and Tenant shall pay ad valorem taxes and increased insurance thereon or attributable thereto), which cost shall be payable by Tenant to Landlord in advance as additional rent. All such installations and improvements must be approved in writing by Landlord in advance of installation or construction.

9. Maintenance and Repair of Premises by Landlord. Except as otherwise expressly provided herein, Landlord shall not be required to make any repairs to the Premises, the Building, or the Project.

10. Graphics. Tenant shall not erect or install any sign or other type display whatsoever, either upon the exterior of the Building, upon or in any window, or in any lobby, without the prior express written consent of Landlord. The color and fabric of the lining of all drapes or, if unlined, the draperies themselves which Tenant desires to place on exterior windows or openings of the Building must be approved by Landlord prior to their installation so that a uniform color appearance may be preserved from the exterior of the Building. Landlord agrees to furnish a directory of the names and locations of its tenants and to install and maintain the same at a convenient location in the lobby of the Building. The initial listing of the name and room number of the Tenant shall be furnished without charge. The listings of additional names or room numbers and changes or revisions of listings shall be made by Landlord at the cost of Tenant.

11. Care of the Premises by Tenant. Tenant agrees not to commit or allow any waste to be committed on any portion of the Premises, and at the termination of this Lease to deliver up the Premises to Landlord in as good condition as at the date of the commencement of the term of this Lease, ordinary wear and tear excepted.

12. Repairs and Alterations by Tenant. Tenant covenants and agrees with Landlord that all repairs and replacements to the Building or Project occasioned by damage done to the Building or Project or any part thereof caused by Tenant or Tenant's agents, employees, invitees, or visitors shall be made by Landlord or Landlord's designee at the Tenant's sole cost and expense. Such repairs shall restore the Building or Project to as good a condition as it was in prior to such damage and shall be effected in compliance with all applicable laws. Tenant shall pay the Landlord's cost of such repairs and alterations to the Landlord in advance as additional rent. Tenant agrees with Landlord not to make or allow to be made any alterations to the Premises, install any vending machines on the Premises, or place signs on the Premises which are visible from outside the Premises, without first obtaining the prior written consent of Landlord in each such instance, which consent may be given on such conditions as Landlord may elect. Any and all alterations to the Premises shall be made by Landlord or Landlord's designee and shall become the property of Landlord upon termination of this Lease (except for movable equipment or furniture owned by Tenant). Landlord may, nonetheless, require Tenant to remove any and all fixtures, equipment and other improvements installed on the Premises which removal, if required, shall be performed by Landlord or Landlord's designee and, in such event Tenant shall pay to Landlord on demand Landlord's cost of restoring the Premises to Building Standard.

13. Use of Electrical Services by Tenant. Tenant's use of electrical services furnished by Landlord shall be subject to the following:

(a) Tenant's electrical equipment shall be restricted to that equipment which individually does not have a rated capacity greater than .5 kilowatts per hour and/or require voltage other than 120/208 volts, single phase. Collectively, Tenant's equipment shall not have an electrical design load greater than an average of 2 watts per square foot of Net Rentable Area of the Premises.

(b) Tenant's lighting shall not have a design load greater than an average of 2 watts per square foot of Net Rentable Area of the Premises.

(c) If Tenant's consumption of electrical services exceeds either the rated capacities and/or design loads as per Paragraphs 13(a) and 13(b), or generates heat in excess of that Landlord's air conditioning system is designed to handle, then Tenant shall remove such equipment and/or lighting to achieve compliance within ten (10) days after receiving notice from landlord or, upon receiving Landlord's prior written approval, such equipment and/or lighting may remain in the Premises, subject to the following:

(i) Tenant shall pay for all costs of installation and maintenance of submeters, wiring, additional air conditioning systems and other items required by Landlord, in Landlord's discretion, to accommodate Tenant's excess design loads and capacities or heat generation.

(ii) Tenant shall reimburse to Landlord, upon demand, the cost of the excess demand and consumption of electrical service at rates charged to Landlord (which rates shall be in accordance with any applicable laws) as well as all costs of operating additional air conditioning systems deemed necessary by Landlord on account of Tenant's excess consumption and/or heat generation.

(iii) Landlord may, at its option, upon not less than thirty- (30) days' prior written notice to Tenant, discontinue the availability of such extraordinary utility service and/or air conditioning service. If Landlord gives any such notice, Tenant will contract directly with such public utility at Tenant's cost for the supplying of such utility service to the Premises.

14. Parking. During the term of this Lease, Tenant shall have the non-exclusive use in common with Landlord, other tenants of the Building, their guests and invitees, of the non- reserved common automobile parking areas, driveways, and footways, subject to rules and regulations for the use thereof as prescribed from time to time by Landlord. Landlord reserves the right to designate parking areas within the Project or in reasonable proximity thereto, for Tenant and Tenant's agents and employees. Tenant shall provide Landlord with a list of all license numbers for the cars owned by Tenant, its agents and employees. In the event that Tenant, its agents and employees, park on portions of the Common Area other than those assigned to Tenant, Landlord reserves the right to charge Tenant as additional rental hereunder Twenty-five Dollars ($25.00) for each such occurrence.

15. Laws and Regulations. Tenant agrees to comply with all applicable laws, ordinances, rules and regulations of any governmental entity or agency having jurisdiction of the Premises.

16. Building Rules. Tenant will comply with the rules of the Building and the Project adopted and altered by Landlord from time to time and will cause all of its agents, employees, invitees and visitors to do so; all changes to such rules will be sent by Landlord to Tenant in writing. The initial rules for the Project are attached hereto as Exhibit "D" and made a part hereof.

17. Entry by Landlord. Tenant agrees to permit Landlord or its agents or representatives to enter into and upon all or any part of the Premises or to the Building at all reasonable hours (and in emergencies at all times) to inspect the same, to show the Premises to prospective purchasers, mortgagees, tenants or insurers, or to clean or make repairs, alterations or additions thereto, and Tenant shall not be entitled to any abatement or reduction of rent by reason thereof.

18. Assignment and Subletting.

(a) Tenant shall not assign, sublease, transfer, sell or encumber this Lease or any interest therein. Any attempted assignment, sublease, transfer, sale or encumbrance by Tenant in violation of the term and covenants of this paragraph shall be void.

(b) All cash or other proceeds of any assignment, sublease, transfer, or sale of Tenant's interest in this Lease, whether consented to by Landlord or not, shall be paid to Landlord, notwithstanding the fact that such proceeds

exceed the rentals called for hereunder, unless Landlord agrees to the contrary in advance in writing, and Tenant hereby assigns to Landlord all rights it might have or ever acquire in any such proceeds. This covenant and assignment shall run with the land and shall bind Tenant and Tenant's heirs, executors, administrators, personal representatives, successors and assigns. Any assignee, sublessee, transferee, or purchaser of Tenant's interest in this Lease (all such assignees, sublessees, transferees, and purchasers being hereinafter referred to as "Successors"), by assuming Tenant's obligations hereunder, shall assume liability to Landlord for all amounts paid to persons other than Landlord by such Successor in consideration of any such assignment, subletting, transfer, or sale in violation of the provisions hereof.

19. Mechanic's Liens. Tenant will not permit any mechanic's or materialman's lien or liens to be placed upon the Premises, the Building, or the Project and nothing in this Lease shall be deemed or construed in anyway as constituting the consent or request of Landlord, express or implied, by inference or otherwise, to any person for the performance of any labor or the furnishing of any materials to the Premises, the Building, or the Project, or any part thereof, nor as giving Tenant any right, power, or authority to contract for or permit the rendering of any services or the furnishing of any materials that would give rise to any mechanic's, materialman's, or other liens against the Premises. In the event any such lien is attached to the Premises, then, in addition to any other right or remedy of Landlord, Landlord may, but shall not be obligated to, discharge the same. Any amount paid by Landlord for any of the aforesaid purposes shall be paid by Tenant to Landlord on demand as additional rent.

20. Insurance.

(a) Landlord shall maintain fire and extended coverage insurance on the Building and the Premises in such amounts, as the Building's mortgagees shall require payable solely to Landlord or the mortgagees of the Building, as their interests shall appear. Tenant shall maintain at its expense, in an amount equal to full replacement cost, fire and extended coverage insurance on all of its personal property, including removable trade fixtures, located in the Premises and in such additional amounts as are required to meet Tenant's obligations pursuant to Paragraph 24 hereof. Tenant's insurance pursuant to the provisions of Paragraphs 20(a) and 20(b) hereof shall provide that such insurance may not be cancelled or expire without at least thirty (30) days' prior written notice to Landlord from the insurer. Tenant shall, at Landlord's request from time to time, provide Landlord with current certificates of insurance evidencing Tenant's compliance with this Paragraph 20(a) and Paragraph 20(b).

(b) Tenant and Landlord shall, each at its own expense, maintain a policy or policies of comprehensive general liability insurance with respect to the respective activities of each in the Building with the premiums thereon fully paid on or before due date, issued by and binding upon an insurance company approved by Landlord, such insurance to afford minimum protection of not less than $1,000,000 combined single limit coverage of bodily injury, property damage or combination thereof and shall name Oral Roberts University and Tower Realty Group, Inc. as additional insureds. Landlord shall not be required to maintain insurance against thefts within the Premises, the Building or the Project generally.

21. Property Taxes. Landlord agrees (subject to the provisions of Paragraph 6 hereof) to pay all ad valorem taxes levied against the Project, but Tenant shall be liable for all taxes levied against personal property and trade fixtures placed by Tenant in the Premises. If any taxes for which Tenant is liable under this Paragraph are levied against Landlord or Landlord's property and if Landlord elects to pay the same or if the assessed value of Landlord's property is increased by inclusion of personal property and trade fixtures placed by Tenant in the Premises and Landlord elects to pay the taxes based on such increase, Tenant shall pay to Landlord upon demand that part of such taxes for which Tenant is liable hereunder.

22. Indemnity. Landlord and its officers, agents, managers, and employees shall not be liable to Tenant, or to Tenant's agents, servants, employees, customers, or invitees for any injury to person or damage to property caused by any act, omission, or neglect of Tenant, its agents, servants, or employees, invitees, licensees or any other person entering the Project under the invitation of Tenant or arising out of the use of the Premises by Tenant and the conduct of its business or out of a default by Tenant in the performance of its obligations hereunder. Tenant hereby indemnifies and holds Landlord and its officers, agents, managers, and employees harmless from all liability and claims for any such damage or injury.

23. Waiver of Subrogation Rights. Anything in this Lease to the contrary notwithstanding, Landlord and Tenant each hereby waives any and all rights of recovery, claim, action, or cause of action, against the other, its agents,

officers, managers, or employees, for any loss or damage that may occur to the Premises, or any improvements thereto, or the Building or the Project, or any improvements thereto, or any personal property of such party therein, by reason of fire, the elements, or any other cause(s) which are insured against under the terms of the standard fire and extended coverage insurance policies referred to in Paragraph 20 hereof, regardless of cause or origin, including negligence of the other party hereto, its agents, officers, managers, or employees.

24. Casualty Damage. If the Premises or any part thereof shall be damaged by fire or other casualty, Tenant shall give prompt written notice thereof to Landlord. In case the Building shall be so damaged that substantial alteration or reconstruction of the Building shall, in Landlord's sole opinion, be required (whether or not the Premises shall have been damaged by such casualty) or in the event any mortgagee of the Building should require that the insurance proceeds payable as a result of a casualty be applied to the payment of the mortgage debt or in the event of any material uninsured loss to the Building, Landlord may, at its option, terminate this Lease by notifying Tenant in writing of such termination within ninety (90) days after the date of such damage. If Landlord does not thus elect to terminate this Lease, Landlord shall commence and proceed with reasonable diligence to restore the Building to substantially the same condition in which it was immediately prior to the happening of the casualty, except that Landlord's obligation to restore shall not exceed the scope of the work required to be done by Landlord at Landlord's expense in originally constructing the Building and installing the Tenant Improvements, nor shall Landlord be required to spend for such work an amount in excess of the insurance proceeds actually received by Landlord as a result of the casualty. When the portions of the Premises originally furnished at Landlord's expense have been restored by Landlord, Tenant shall, at Tenant's expense, complete the restoration of the Premises, including the reconstruction of all improvements in excess of those Tenant Improvements originally installed at Landlord's expense, and the restoration of Tenant's furniture and equipment. Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting in any way from such damage or the repair thereof, except that, subject to the provisions of the next sentence, Landlord shall allow Tenant a fair diminution of rent during the time and to the extent the Premises are unfit for occupancy. If the Premises or any other portion of the Building or the Project be damaged by fire or other casualty resulting from the fault or negligence of Tenant or any of Tenant's agents, employees, or invitees, the rent hereunder shall not be diminished during the repair of such damage and Tenant shall be liable to Landlord for the cost of the repair and restoration of the Building or the Project caused thereby to the extent such cost and expense is not covered by insurance proceeds.

25. Condemnation. If the whole or substantially the whole of the Building or the Premises should be taken for any public or quasi-public use, by right of eminent domain or otherwise, or should be sold in lieu of condemnation, then this Lease shall terminate as of the date when physical possession of the Building or the Premises is taken by the condemning authority. If less than the whole or substantially the whole of the Building or the Premises is thus taken or sold, Landlord (whether or not the Premises are affected thereby) may terminate this Lease by giving written notice thereof to Tenant; in which event, this Lease shall terminate as of the date when physical possession of such portion of the Building or Premises is taken by the condemning authority. If this Lease is not so terminated upon any such taking or sale, the Base Rental payable hereunder shall be diminished by an equitable amount, and Landlord shall, to the extent Landlord deems feasible, restore the Building and the Premises to substantially their former condition, but such work shall not exceed the scope of the work done by Landlord in originally constructing the Building and the Tenant Improvements, nor shall Landlord in any event be required to spend for such work an amount in excess of the amount received by Landlord as compensation for such taking. All amounts awarded upon a taking of any part or all of the Building or the Premises shall belong to Landlord, and Tenant shall not be entitled to, and expressly waives all claims to, any such compensation.

26. Damages From Certain Causes. Landlord shall not be liable to Tenant for any loss or damage to any property or person occasioned by theft, fire, act of God, public enemy, injunction, riot, strike, insurrection, war, court order, requisition, or order of governmental body or authority or by any other cause beyond the control of Landlord. Nor shall Landlord be liable for any damage or inconvenience, which may arise through repair or alteration of any part of the Building, the Project, or the Premises.

27. Events of Default/Remedies.

(a) The following events shall be deemed to be events of default by Tenant under this Lease: (i) Tenant shall fail to comply with any provision of this Lease or any other agreement between Landlord and Tenant all of which

terms, provisions and covenants shall be deemed material; (ii) the leasehold hereunder demised shall be taken on execution or other process of law in any action against Tenant; (iii) Tenant shall fail to promptly move into and take possession of the Premises when the Premises are ready for occupancy or shall cease to do business in or abandon any substantial portion of the Premises; (iv) Tenant shall become insolvent or unable to pay its debts as they become due, or Tenant notifies Landlord that it anticipates either condition; (v) Tenant takes any action to, or notifies Landlord that Tenant intends to file a petition under any section or chapter of the United States Bankruptcy Code, as amended, or under any similar law or statute of the United States or any State thereof; or a petition shall be filed against Tenant under any such statute or Tenant or any creditor of Tenant's notifies Landlord that it knows such a petition will be filed or Tenant notifies Landlord that it expects such a petition to be filed; or (vi) a receiver or trustee shall be appointed for Tenant's leasehold interest in the Premises or for all or a substantial part of the assets of Tenant.

(b) If Tenant does not make payment when due of any rental installment required of Tenant in the Lease, or if default by Tenant under this Lease otherwise occurs, in addition to the imposition of appropriate late charges, Landlord may, at its option, declare the total Base Rental due or to be due under this Lease immediately due and payable and, if the same is not paid upon demand, said total Base Rental shall be past due, delinquent, and in default.

If Tenant does not make payment when due of any rental installment, Tenant waives notice of rent due and demand for payment of said unpaid installment and waives notice and demand by Landlord for the Tenant to quit and vacate the Premises if such rent not be paid.

(c) Upon the occurrence of any event or events of default by Tenant, whether enumerated in this Paragraph 27 or not, Landlord shall have the option to pursue any one or more of the following remedies without any notice or demand for possession whatsoever (and without limiting the generality of the foregoing), Tenant hereby specifically waives notice and demand for payment of rent or other obligations due and waives any and all other notices or demand requirements imposed by applicable law): (i) terminate this Lease in which event Tenant shall immediately surrender the Premises to Landlord; (ii) terminate Tenant's right to occupy the Premises and re-enter and take possession of the Premises (without terminating this Lease); (iii) enter upon the Premises and do whatever Tenant is obligated to do under the terms of this Lease; and Tenant further agrees that Landlord shall not be liable for any damages resulting to the Tenant from such action; and (iv) exercise all other remedies available to Landlord at law or in equity, including, without limitation, injunctive relief of all varieties.

In the event Landlord elects to re-enter or take possession of the Premises after Tenant's default, Tenant hereby waives notice of such re-entry or repossession and of Landlord's intent to re-enter or take possession. Landlord may, without prejudice to any other remedy which he may have for possession or arrearages in rent, expel or remove Tenant any other persons who may be occupying said Premises or any part thereof. In addition, the provisions of Paragraph 30 hereof shall apply with respect to the period from and after the giving of notice of such election to Tenant. All Landlords' remedies shall be cumulative and not exclusive. Forbearance by Landlord to enforce one or more of the remedies herein provided upon an event of default shall not be deemed or construed to constitute a waiver of such default.

(d) This Paragraph 27 shall be enforceable to the maximum extent not prohibited by applicable law, and the unenforceability of any portion thereof shall not thereby render unenforceable any other portion. To the extent any provision of applicable law requires some action by Landlord to evidence or effect the termination of this Lease or to evidence the termination of Tenant's right of occupancy, Tenant and Landlord hereby agree that notice, either oral or by telephone, or by any act of Landlord that comes to the attention of Tenant, its agents, servants, or employees, which reflects Landlord's intention to terminate, shall be sufficient to evidence and effect the termination herein provided for, but Tenant hereby agrees that, as between Landlord and Tenant, its successors and assigns, no such notice shall ever be necessary to effect a termination hereunder.

(e) Landlord shall be in default hereunder in the event Landlord has not begun and pursued with reasonable diligence the cure of any failure of Landlord to meet its obligations hereunder within thirty (30) days of the receipt by Landlord of written notice from Tenant of the alleged failure to perform. In no event shall Tenant have the right to terminate or rescind this Lease as a result of Landlord's default as to any covenant or agreement contained in this Lease or as a result of the breach of any promise or inducement hereof, whether in this Lease or elsewhere. Tenant hereby waives such remedies of termination and rescission and hereby agrees that Tenant's remedies for default hereunder and for breach of any promise or inducement shall be limited to a suit for damages and/or injunction. In addition, Tenant hereby covenants that, prior to the exercise of any such remedies; it will give the mortgagees holding mortgages on the Building notice and a reasonable time to cure any default by Landlord.

28. Peaceful Enjoyment. Tenant shall, and may peacefully have, hold, and enjoy the Premises, subject to other terms hereof, provided that Tenant pays the rent and other sums herein recited to be paid by Tenant and performs all of Tenant's covenants and agreements herein contained. This covenant and any and all other covenants of Landlord shall be binding upon each of Landlord and its successors only with respect to breaches occurring during the respective periods of ownership of each of the Landlord's interest hereunder.

29. Consumer Price Index Adjustment. Effective the first day following each one-year period of the Lease Term, the Base Rental hereunder shall be increased over the Base Rental payable hereunder during the preceding year by an amount which represents a percentage increase in the Base Rental payable during the preceding year, equal to the percentage increase in the CPI (hereafter defined) between the most recent CPI publication prior to the commencement of the preceding one-year period and the most recent CPI publication as of the date thirty (30) days prior to such annual adjustment in Base Rental. CPI shall mean the Consumer Price Index for All Urban Consumers (CPI-U) for all items (Dallas/Forth Worth, Texas Area) published by the Bureau of Labor Statistics, U.S., U.S. Department of Labor (1967 equals 100). If the Bureau of Labor Statistics shall ever cease to compile or publish the CPI-U, then CPI shall thereafter mean such other index of prices published by the U. S. Government as most nearly approximates the CPI-U now published. All calculations made hereunder shall, if necessary, be adjusted to reflect any change in the base year used in calculating the CPI. Landlord shall be entitled to require that the payment of the adjustment to Base Rental provided for in this paragraph be made in monthly installments equal to 1/12 of such adjustment for each year during the remainder of that year, such installments being due and payable on the first day of each calendar month during such year.

30. Holding Over. In the event of holding over by Tenant after expiration or other termination of this Lease, or in the event Tenant continues to occupy the Premises after the termination of Tenant's right of possession pursuant to Paragraph 27 (c)(ii) hereof, Tenant shall, throughout the entire holdover period, pay rent equal on a per diem basis, to twice the Base Rental and additional Base Rental which would have been applicable had the term of this Lease continued through the period of such holding over by Tenant. No holding over by Tenant after the expiration of the Lease Term shall be construed to extend the term of the Lease. The provision of this paragraph shall not be in place of or in lieu of, but shall be in addition to, the provisions of Paragraph 27(b).

31. Subordination to Mortgage. Tenant accepts this Lease subject and subordinate to any mortgage, deed of trust or other lien presently existing or hereafter arising upon the Premises, upon the Building or upon the Project as a whole, and to any renewals, refinancing and extensions thereof, but Tenant agrees that any such mortgagee shall have the right at any time to subordinate such mortgage, deed of trust or other lien to this Lease on such terms and subject to such conditions as such mortgagee may deem appropriate in its discretion. Landlord is hereby irrevocably vested with full power and authority to subordinate this Lease to any mortgage, deed of trust or other lien now existing or hereafter placed upon the Premises, the Building or the Project as a whole, and Tenant agrees upon demand to execute such further instruments subordinating this Lease or attorning to the holder of any such liens as Landlord may request. The terms of this Lease are subject to approval by the Building's permanent lender(s), and such approval is a condition precedent to Landlord's obligations hereunder. In the event that Tenant should fail to execute any instrument of subordination herein required to be executed by Tenant promptly as requested, Tenant hereby irrevocably constitutes Landlord as its attorney-in-fact to execute such instrument in Tenant's name, place and stead, it being agreed that such power is one coupled with an interest. Tenant agrees that it will from time to time upon request by Landlord execute and deliver to such persons as Landlord shall request a statement in recordable form certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as so modified), stating the dates to which rent and other charges payable under this lease have been paid, stating that Landlord is not in default hereunder (or if Tenant alleges a default stating the nature of such alleged default) and further stating such other matters as Landlord shall reasonably require.

32. Landlord's Lien. Intentionally omitted.

33. Attorney's Fees. In the event either party defaults in the performance of any of the terms of this Lease and the other party employs an attorney in connection therewith, the defaulting party agrees to pay the other party's reasonable attorney's fees.

34. No Implied Waiver. The failure of Landlord to insist at any time upon the strict performance of any covenant or agreement of this Lease or to exercise any option, right, power or remedy contained in this Lease shall not be construed as a waiver or a relinquishment thereof for the future. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly installment of rent due under this Lease shall be deemed to be other than on account of the earliest rent due hereunder, nor shall any endorsement or statement on any check or any letter accompanying any check or payment of rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy in this Lease provided.

35. Personal Liability. The liability of Landlord to Tenant for any default by Landlord under the terms of this Lease shall be limited to the interest of Landlord in the Project and Tenant agrees to look solely to Landlord's interest in the Project for the recovery of any judgment from the Landlord, it being intended that Landlord shall not be personally liable for any judgment or deficiency.

36. Security Deposit. The Security Deposit shall be held by Landlord without liability for interest and as security for the performance by Tenant of Tenant's covenants and obligations under this Lease, it being expressly understood that the Security Deposit shall not be considered an advance payment or rental or a measure of Tenant's damages in case of default by Tenant. Unless otherwise provided by mandatory non-waivable law or regulation, Landlord may commingle the Security Deposit with Landlord's other funds. Landlord may, from time to time, without prejudice to any other remedy, use the Security Deposit to the extent necessary to make good any arrearages of rent or to satisfy any other covenant or obligation of Tenant hereunder. Following any such application of all or any part of the Security Deposit, Tenant shall pay to Landlord on demand the amount so applied in order to restore the Security Deposit to its original amount. If Tenant is not in default at the termination of this Lease, Landlord shall return the balance of the Security Deposit remaining after any such application to Tenant. If Landlord transfers its interest in the Premises during the term of the Lease, Landlord may assign the Security Deposit to the transferee and thereafter shall have no further liability for the return of such Security Deposit.

37. Notice. Any notice in the Lease provided for must, unless otherwise expressly provided herein, be in writing, and may, unless otherwise in this Lease expressly provided, be given or be served by depositing the same in the United States mail, postpaid and certified and addressed to the party to be notified, with return receipt requested. Notice deposited in the mail in the manner hereinabove described shall be effective from and after the expiration of three (3) days after it is so deposited. Notices mailed shall be addressed to the parties at the following addresses:

If to Landlord:	If to Tenant:
Oral Roberts University	ENGlobal Engineering, Inc.
c/o Tower Realty Group, Inc.	Attn: Robert Raiford
2488 E. 81st St., Suite 188	P.O. Box 20397
Tulsa, OK 74137	Beaumont, TX 77720

or in each case to such other address as either party may from time to time designate in writing.

38. Severability. If any term or provision of this Lease, or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and enforced to the fullest extent permitted by law.

39.

40. Governing Law. This Lease and the rights and obligations of the parties hereto shall be interpreted, construed, and enforced in accordance with the laws of the State of Oklahoma.

41. Force Majeure. Whenever a period of time is herein prescribed for the taking of any action by Landlord, Landlord shall not be liable or responsible for, and there shall be excluded from the computation of such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions, or any other cause whatsoever beyond the control of Landlord.

42. Time of Performance. Except as expressly otherwise herein provided, with respect to all required acts of Tenant, time is of the essence of this Lease.

43. Transfers by Landlord. Landlord shall have the right to transfer and assign, in whole or in part, all its rights and obligations hereunder and in the Premises, the Building, the Project, and property referred to herein, and in such event and upon such transfer Landlord shall be released from any further obligations hereunder and Tenant agrees to look solely to Landlord's successor in interest then occupying Landlord's position hereunder for the performance of such obligations.

44. Commissions. Landlord and Tenant hereby indemnify and hold each other harmless against any loss, claim, expense, or liability with respect to any commissions or brokerage fees claimed on account of the execution and/or renewal of this Lease and due to any action of the indemnifying party.

45. Effect of Delivery of This Lease. Landlord has delivered a copy of this Lease to Tenant for Tenant's review only, and the delivery hereof does not constitute an offer or option to Tenant for Tenant to lease the Premises. This Lease shall not be effective until a copy executed by both Landlord and Tenant is delivered to and accepted by Landlord.

46. Relocation. In the event the Premises contain 5,000 square feet or less of Net Rentable Area of the Premises, Landlord shall be entitled to cause Tenant to relocate from the Premises to a comparable space ("Relocation Space") within the Building at any time after reasonable written notice not in excess of ninety
(90) days is given to Tenant of Landlord's election. Any such relocations shall be entirely at the expense of Landlord or the third party tenant replacing Tenant in the Premises. Such a relocation shall not terminate or otherwise affect or modify this Lease except that from and after the date of such relocation, "Premises" shall refer to the Relocation Space into which Tenant has been moved, rather than the original Premises as herein defined.

47. Building Name. Landlord reserves the right at any time and from time to time to change the name by which the Building is designated.

48. Corporate Authority. If Tenant is a corporation, Tenant warrants that it has legal authority to operate and is authorized to do business in the state of Oklahoma. Tenant and the person executing this Lease on behalf of Tenant warrant that the person or persons executing this Lease on behalf of Tenant has authority to do so and to fully obligate Tenant to all terms and provisions of this Lease. Tenant shall, upon request from Landlord, furnish Landlord with a certified copy of resolutions of Tenant's Board of Directors authorizing this Lease and granting authority to execute it to the person or persons who have executed it on Tenant's behalf.

49. Exhibits. Exhibits "A", "B", "C", "D" and Addendum are attached hereto and incorporated herein and made a part of this Lease for all purposes:

50. Prior Agency Disclosure. Tenant acknowledges that prior to its entering into this Lease the Landlord and Tower Realty Group, Inc. have disclosed to Tenant that:

(a) Tower Realty Group, Inc. is a licensed real estate broker in Oklahoma, and,

(b) with regard to the Building, Tower Realty Group, Inc. is the Landlord's leasing agent and property manager.

51. Broker. The parties hereto agree that the sole broker who negotiated and brought about this transaction was Austin Neal of Tower Realty Group, Inc. Landlord agrees to pay a commission therefor as per separate agreement.

Tenant represents it neither consulted nor negotiated with any broker other than Austin Neal of Tower Realty Group, Inc. with regard to the Leased Premises. Tenant agrees to indemnify, defend and save Landlord harmless from and against any claims for fees or commissions from anyone other than Austin Neal of Tower Realty Group, Inc. and with whom Tenant has dealt in connection with the Premises or this Lease.

The representations and indemnities contained in this Section 51 shall survive the expiration or earlier termination of this Lease.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease in multiple counterparts as of the day and year first above written.

LANDLORD

WITNESS:
/s/ Austin Neal
Name

Oral Roberts University,
an Oklahoma corporation

By: /s/ David Elsworth

Title: EVP

TENANT

WITNESS:
/s/Jean Whitaker

ENGlobal Engineering, Inc.
a Texas corporation

By: /s/ William A. Coskey

Title CEO

Exhibit "A"

LEGAL DESCRIPTION

According to the recorded plat thereof Tulsa County, City of Tulsa, State of Oklahoma, known as:

A tract of land that is part of Lot One (1), Block One (1), of ORAL ROBERTS UNIVERSITY HEIGHTS 2ND ADDITION, an Addition to the City of Tulsa, Tulsa County, Oklahoma, according to the Recorded Plat thereof, more particularly described as follows, to-wit:

STARTING at the Northwest corner of said Lot 1; thence South 89 degrees 48' 06" E along the Northerly line of Lot 1 for 939.90 feet to the POINT OF BEGINNING of said tract of land; thence continuing South 89 degrees 48' 06" E along said Northerly line for 558.08 feet; thence S 0 degrees 11' 54" W for 30.29 feet to a point of curve; thence Southerly and Southwesterly along a curve to the Right, with a central angle of 45 degrees 00' 00" and a radius of 217.87 feet, for 171.12 feet to a point of Reverse curve; thence Southwesterly along a curve to the left with a central angle of 38 degrees 21' 41" and a radius of 191.83 feet, for 128.44 feet to a point of compound curve, thence Southwesterly, Southerly and Easterly along a curve to the left, with a central angle of 96 degrees 38' 19" and a radius of 18.83 feet for 31.77 feet to a point of tangency; thence S 89 degrees 48' 06" E along said tangency for 50.01 feet; thence S 00 degrees 11' 54" W for 254.33 feet; thence N 89 degrees 48' 06" W for 41.82 feet to a point of curve; thence Westerly, Southerly and Southeasterly along a curve to the left, with a central angle of 101 degrees 10' 31" and a radius of 18.83 feet, for 33.26 feet to a point of compound curve; thence Southeasterly and Easterly along a curve to the left with a central angle of 78 degrees 49' 29" and a radius of 511.83 feet, for 704.16 feet to a point of tangency; thence S 89 degrees 48' 06" E along said tangency for 656.38 feet to a point on the Easterly line of said Lot 1, said point being 1008.29 feet Southerly of the Northeast corner thereof; thence S 0 degrees 24' 38" W along said Easterly line for 598.22 feet; thence N 89 degrees 53' 47" W along an extension of and along the Northerly line of Lot 1 in Block 1 of UNIVERSITY VILLAGE, an Addition to the City of Tulsa, Tulsa County, Oklahoma, for 2538.15 feet to the Northwest corner of said Lot 1 of University Village; thence N 0 degrees 01' 32" W for 0.00 feet to a point of curve; thence Northerly along the Westerly line of Lot 1 of ORAL ROBERTS UNIVERSITY HEIGHTS 2ND ADDITION on a curve to the right, with a central angle of 0 degrees 00' 58" and a radius of 350.00 feet, for 0.10 feet to a point of tangency; thence N 0 degrees 00' 34" W along the Westerly line of said Lot 1 on said tangency for 602.32 feet; thence S 89 degrees 48' 06" E for 546.16 feet to a point of curve; thence Easterly and Northeasterly along a curve to the left, with a central angle of 78 degrees 49' 29" and a radius of 511.83 feet, for 704.16 feet to a point of compound curve; thence Northeasterly, Northerly, and Westerly along a curve to the left, with a central angle of 101 degrees 10' 31" and a radius of 18.83 feet, for 33.26 feet to a point of tangency; thence N 89 degrees 48' 06" W along said tangency for 41.82 feet; thence N 00 degrees 11' 54" E for 254.33 feet; thence S 89 degrees 48' 06" E for 50.01 feet to a point of curve; thence Easterly, Northerly, and Northwesterly along a curve to the left, with a central angle of 96 degrees 38' 19" and a radius of 18.83 feet, for 31.77 feet to a point of compound curve; thence Northwesterly along a curve to the left, with a central angle of 38 degrees 21' 41" and a radius of 191.83 feet, for 128.44 feet to a point of reverse curve; thence Northwesterly and Northerly along a curve to the right, with a central angle of 45 degrees 00' 00" and a radius of 217.87 feet, for 171.12 feet to a point of tangency; thence N 0 degrees 11' 54" E along said tangency for 21.30 feet to a point of curve; thence Northerly and Northwesterly along a curve to the left, with a central angle of 22 degrees 01' 21" and a radius of 24.00 feet, for 9.22 feet to the Point of Beginning of said tract of land.

LESS AND EXCEPT:

A tract of land that is part of Lot 1 in Block 1 of ORAL ROBERTS UNIVERSITY HEIGHTS 2ND ADDITION, an Addition to the City of Tulsa, Tulsa County, Oklahoma, said tract of land being described as follows, to-wit:

Starting at the Northwest corner of Lot 1 of University Village, an Addition to the City of Tulsa, Tulsa County, Oklahoma, thence S 89 degrees 53' 47" E along the Northerly line of said Lot 1 for 779.12 feet to the "Point of Beginning" of said tract of land; thence N 0 degrees 06' 13" E for 64.50 feet; thence S 89 degrees 53' 47" E for 58.00 feet; thence S 0 degrees 06' 13" W for 64.50 feet to a point on the Northerly line of Lot 1 of "University Village"; thence N 89 degrees 53' 47" W along said Northerly line for 58.00 feet to the Point of Beginning of said tract of land.

[GRAPHIC ON FILE]

Cityplex Towers
60 Story Tower
29th Floor Plan
20 offices 8c 12 spaces
2 conference rooms

[GRAPHIC ON FILE]

Cityplex Towers
60 Story Tower
30th Floor Plan

3000 - ENGlobal Design Group
10,950 Sq. Ft.

[GRAPHIC ON FILE]

60 Story Tower
3200 - Englobal Eng./IDS
11,250 Sq. Ft.

[GRAPHIC ON FILE]

60 Story Tower

3300-

[GRAPHIC ON FILE]

60 Stoiy Tower

3500-

Floor Plan

Exhibit "C"

TENANT IMPROVEMENTS

Tenant accepts the "Premises" in as-is condition.

Exhibit "D"

RULES AND REGULATIONS

1. Sidewalks, doorways, vestibules, halls, stairways, and similar areas shall not be obstructed nor shall refuse, furniture, boxes or other items be placed therein by Tenant or its officers, agents, servants, and employees, or used for any purpose other than ingress and egress to and from the leased premises or for going from one part of the Building to another part of the Building. Canvassing, soliciting, and peddling in the Building are prohibited.

2. Plumbing fixtures and appliances shall be used only for the purposes for which constructed and no unsuitable material shall be placed therein.

3. No signs, directories, posters, advertisements, or notices shall be painted or affixed on or to any of the windows or doors, or in corridors or other parts of the Building, except in such color, size, and style, and in such places as shall be first approved in writing by Landlord in its discretion. Landlord will prepare one (1) building standard identification sign at Landlord's expense. No additional signs shall be posted without Landlord's prior written consent as to location and form, and the cost of preparing and posting such signs shall be borne solely by Tenant. Landlord shall have the right to remove all unapproved signs without notice to Tenant, at the expense of Tenant.

4. Tenant shall not do, or permit anything to be done in or about the Building, or bring or keep anything therein, that will in any way increase the rate of fire or other insurance on the Building, or on property kept therein or otherwise increase the possibility of fire or other casualty (example: Candles, halogen floor lamps, electric heaters).

5. Landlord shall have the power to prescribe the weight and position of heavy equipment or objects, which may overstress any portion of the floor. All damage done to the Building by the improper placing of such heavy items will be repaired at the sole expense of the responsible tenant.

6. A tenant shall notify the Building manager when safes or other heavy equipment or objects are taken in or out of the Building, and the moving shall be done after written permission is obtained from Landlord on such conditions as Landlord shall require. Any moving in or moving out of Tenant's equipment, furniture, files, and/or fixtures shall be done only with prior written notice to Landlord, and Landlord shall be entitled to prescribe the hours of such activity, the elevators which shall be available for such activity and shall, in addition, be entitled to place such other conditions upon Tenant's moving activities as Landlord deems appropriate. Tenant shall bear all risk of loss relating to damage incurred with respect to Tenant's property in the process of such a move, and in addition, shall indemnify and hold Landlord harmless as to all losses, damages, claims, causes of action, costs and/or expenses relating to personal injury or property damage sustained by Landlord or any third part on account of Tenant's moving activities.

7. Corridor doors, when not in use, shall be kept closed.

8. All deliveries must be made via the service entrance and elevators designated by Landlord for service, if any, during normal working hours. Landlords written approval must be obtained for any delivery after normal working hours.

9. Each tenant shall cooperate with Landlord's employees in keeping leased premises neat and clean.

10. Tenant shall not cause or permit any improper noises in the Building, or allow unpleasant odors to emanate from the leased premises, or otherwise interfere, injure, or annoy in any way other tenants or persons having business with them.

11. No animals shall be brought into or kept in or about the Building.

12. No boxes, crates, or other such materials shall be stored in hallways or other Common Areas. When Tenant must dispose of crates, boxes, etc., it will be the responsibility of Tenant to dispose of same prior to, or after the hours of 7:30 a.m. and 5:30 p.m., so as to avoid having such debris visible in the Common Area during Normal Business Hours.

13. No machinery of any kind, other than ordinary office machines such as computers, typewriters and calculators, shall be operated on leased premises without the prior written consent of Landlord.

14. Tenants or their employees shall not use nor keep in the Building any flammable or explosive fluid or substance (including live Christmas trees and ornaments), or any illuminating materials including candles. No space heaters, halogen floor lamps or fans shall be operated in the Building.

15. No bicycles, motorcycles or similar vehicles will be allowed in the Building.

16. No nails, hooks, or screws shall be driven into or inserted in any part of the Building except as approved by building maintenance personnel. Nothing shall be affixed to, or made to hang from the ceiling of the Premises without Landlord's prior written consent.

17. Landlord has the right to evacuate the Building in the event of an emergency or catastrophe.

18. Outside food services will be allowed in Tenant's leased premises only.

19. No additional locks shall be placed upon any doors without the prior written consent of Landlord. Landlord shall furnish all necessary keys, and the same shall be surrendered upon termination of this Lease, and Tenant shall then give Landlord or his agent an explanation of the combination of all locks on the doors or vaults. Landlord shall initially give tenant two (2) keys to the Demised Premises. Tenant shall make no duplicates of such keys. Additional keys shall be obtained only from Landlord, at a fee to be determined by Landlord.

20. Tenant will not locate furnishings or cabinets adjacent to mechanical or electrical access panels to prevent personnel from servicing such units as routine or emergency access may require. Cost of moving such furnishing for Landlord's access will be at Tenant's expense. The lighting and air conditioning equipment of the Building will remain the exclusive charge of the Building designated personnel.

21. Tenant shall comply with parking rules and regulations as may be posted and distributed from time to time.

22. Hangtags are provided for each Tenant and their employees and must be displayed properly in vehicles while on CityPlex property.

23. Employees are not to park in Visitor parking.

24. Upon second vehicle violation notice, vehicles will be towed at owners' expense.

25. Tenants and their employees are not allowed to advertise "For Sale" any vehicles on CityPlex Towers property.

26. Tenants have the option of allowing their employees to have access to the building with Security Codes provided by the Management Company. Any transferring of codes will result in immediate deletion from the security system.

27. No portion of the Building shall be used for the purpose of lodging rooms.

28. Tenant will not place vending machines or dispensing machines of any kind in the leased premises.

29. Prior written approval, which shall be at Landlord's sole discretion, must be obtained for installation of window shades, blinds, drapes, or any other window treatment of any kind whatsoever. Landlord will control all internal lighting that may be visible from the exterior of the Building and shall have the right to change any unapproved lighting, without notice to Tenant, at Tenant's expense.

30. No tenant shall make any changes or alterations to any portion of the Building without Landlord's prior written approval, which may be given on such conditions as Landlord may elect. All such work shall be done by Landlord or by contractors and/or workmen approved by Landlord working under Landlord's supervision.

31. Smoking is prohibited on the North, East and West sides of the building. Smoking is permitted in the designated areas of the building and in the smoking rooms designated by Landlord within the building.

In the event that Tenant, it's agents and employees smoke in any area other than those described above, Landlord reserves the right to charge Tenant as additional rent hereunder, Fifty Dollars ($50.00) for each such occurrence.

CityPlex Security personnel on-site as well as will monitor the non-smoking areas by video.

32. Landlord reserves the right to rescind any of these rules and make such other and further rules and regulations as in its judgment shall from time to time be needful for the operation of the Building, which rules shall be binding upon each Tenant upon delivery to such Tenant of notice thereof in writing.

Last Revision: August 18, 2002

CONFIRMATION OF PRIOR AGENCY DISCLOSURE

The Oklahoma Real Estate Commission Rules require a licensee, as agent or principal, to clearly disclose the agency relationship(s) to the Landlord and Tenant prior to their entering into a binding agreement, and to confirm the prior agency disclosure in a separate provision, incorporated in or attached to that agreement.

In compliance with this Commission Rule, Landlord and Tenant confirm that before they entered into this Lease Agreement, Tower Realty Group, Inc. and Austin Neal had previously disclosed that they represent the Landlord.

LANDLORD

Oral Roberts University,
an Oklahoma corporation

By: David Elsworth

Date 01/27/05

Title: EVP

TENANT

ENGlobal Engineering, Inc.
A Texas corporation

By: /s/ William A. Coskey

Title: CEO

ADDENDUM

TO CITYPLEX TOWER OFFICE LEASE AGREEMENT
BY AND BETWEEN
ORAL ROBERTS UNIVERSITY, AN OKLAHOMA CORPORATION, LANDLORD
AND
ENGLOBAL ENGINEERING, A TEXAS CORPORATION, TENANT

1. Termination Option: Tenant shall have the right to terminate up to 11,250 rentable square feet of the Lease effective on February 28, 2006 by giving the Landlord ninety (90) days prior written notice of its' intent to terminate. Tenant shall also have the right to terminate up to 11,250 rentable square feet of the Lease effective on February 28, 2007 by giving Landlord ninety (90) days prior written notice of its' intent to terminate.

2. Expansion Option: Provided that this Lease is then in full force and effect, and provided further that Tenant is not then in breach or default under any of the terms, covenants or conditions in this Lease on Tenant's part to observe or perform, Tenant shall have the right to lease additional space in the Building at any time during the initial Lease term, subject to availability. The Base Rental for said additional space shall be the then current base rental called for in the Lease.

Exhibit 10.17

SIXTH AMENDMENT TO LEASE

This agreement made as of the 20th day of June, 2007, between Oral Roberts University, an Oklahoma corporation ("Landlord") and ENGIobal Engineering, Inc., a Texas Corporation ("Tenant").

WHEREAS, Landlord and Tenant entered into that certain "Lease Agreement" dated January 27, 2005 with respect to premises consisting of approximately 50,631 square feet of Net Rentable Area (the "Leased Premises") in the building located at 2448 E. 81st Street, Suite 3300, Tulsa, Oklahoma 74137 and known as CityPlex Towers (the "Building"), said premises being more particularly described in the Lease; and

WHEREAS, Landlord and Tenant (the "parties") have made and executed that certain First Amendment to Lease dated April 7, 2005 (expanding space by 5,319 RSF, totaling 55,950 RSF), modifying and amending the Lease upon the terms and conditions contained therein, and;

WHEREAS, Landlord and Tenant (the "parties") have made and executed that certain Second Amendment to Lease dated June 13, 2005 (expanding space by 11,250 RSF, totaling 67,200 RSF), modifying and amending the Lease upon the terms and conditions therein contained and;

WHEREAS, Landlord and Tenant (the "parties") have made and executed that certain Third Amendment to Lease dated December 28, 2005 (expanding space by 11,250 RSF, totaling 78,450 RSF), modifying and amending the Lease upon the terms and conditions therein contained and;

WHEREAS, Landlord and Tenant (the "parties") have made and executed that certain Fourth Amendment to Lease dated February 27, 2006 (expanding space by 11,250 RSF, totaling 89,700 RSF), modifying and amending the Lease upon the terms and conditions therein contained and;

WHEREAS, Landlord and Tenant (the "parties") have made and executed that certain Fifth Amendment to Lease dated July 26, 2006 (expanding space by 11,250 RSF, totaling 100,950 RSF), modifying and amending tide Lease upon the terms and conditions therein contained and;

WHEREAS, Landlord and Tenant (the "parties") now desire to amend and modify said Lease Agreement in the following particulars;

NOW THEREFORE, in consideration of the mutual covenants contained herein, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

1. The provisions of this Agreement shall supersede any inconsistent provisions contained in the Lease, whether such inconsistent provisions are contained in the printed portion of the Lease or any addendum, rider or exhibit annexed thereto. All capitalized items not otherwise defined herein shall have the same meanings ascribed to them in the Lease.

2. Effective February 1, 200B, the Premises shall be expanded to include 1,682 net rentable square feet previously held under a separate Lease, as outlined in Exhibit "A", resulting in a total of 102,632 RSF.

3. The Lease Term shall be extended for sixty (60) months, commencing on February 1, 2008 and expiring on January 31, 2013. The monthly Base Rental for the Renewal space shall be as follows:

Year 1 - $10.25
Year 2 - $10.50
Year 3 - $10.75
Year 4 - $11.00
Year 5 - $11.25

4. Section 29. Consumer Price Index Adjustment is hereby deleted in us entirety.

5. Improvement Allowance. Landlord will provide an allowance equal to $2.50 RSP to be used by ENGlobal for Tenant improvements to the Lease premises, including but not limited to Construction, Architectural and Engineering soft costs, and Systems Furniture. Fifty percent of the Allowance will be available in the first twelve months of the renewal term with the remaining Allowance available anytime thereafter. Tenant shall have the right to apply any improvement allowance funds remaining at the end of the twenty fourth month of the renewal term toward the abatement of rent.

6. Landlord will provide a continuing Right of First Refusal for ALL unencumbered space in the middle elevator bank for Floors 12 - 36.

Rental for any expansion will be coterminous with the then-escalated Rental currently being paid by Tenant. Space will be delivered in an "as-is" condition, however; Landlord will provide a Tenant Improvement allowance equal to the following:

Year 1 - $7.00 RSF
Year 2 - $5.60 RSF
Year 3 - $4.20 RSF
Year 4 - $2.80 RSF

7. Landlord shall make available to Tenant, at no charge, one (1) reserved parking space per floor. In addition, Landlord agrees to provide ten (10) additional reserved spaces.

8. Tenant shall have the right to terminate one (1) floor of the Lease effective on the second anniversary of the renewal term, one (1) floor of the Lease effective on the third anniversary of the renewal term, and one (1) floor of the Lease effective on the fourth anniversary of the renewal term by giving the Landlord ninety (90) days prior written notice of its intent to terminate. Tenant shall pay a penalty equal to three (3) months rent and any unamortized costs.

9. Provided that this Lease is then in full force and effect, and provided further that Tenant is not then in material breach or default under any of the terms, covenants or conditions in this Lease on Tenant's part to observe or perform, Tenant shall have the right to renew the Lease for one (1) additional period of five (5) years provided Tenant gives Landlord six (6) months prior written notice to the then expiring Lease Term. If the Option to Renew is exercised, the Base Rent during the Renewal Terms shall be at the then prevailing fair market rent. The "fair market rent" shall mean the amount that a willing, comparable, renewal tenant with a renewal right at market would pay and a willing, comparable, landlord of a comparable office building in the market area would accept at arm's length.

10. Section 30. of the Lease shall be replaced with the following:

Over. In the event of holding over by Tenant after expiration or other termination of this Lease, or in the event Tenant continues to occupy the Premises after the termination of Tenant's right of possession pursuant to Paragraph 27 (c)(ii) hereof, Tenant shall, throughout the entire holdover period, pay rent equal on a per diem basis, to 150% the Base Rental and additional Base Rental which would have been applicable had the term of this Lease continued through the period of such holding over by Tenant. No holding over by Tenant after the expiration of the Lease Term shall be construed to extend the term of the Lease. The provision of this paragraph shall not be in place of or in lieu of, but shall be in addition to, the provisions of Paragraph 27(b).

11, Assignment and .Subletting.

(a) Tenant shall not directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, assign, sublet, mortgage, hypothecate or otherwise encumber all or any portion of its interest in this Lease or in the Premises or grant any license in or suffer any person other than Tenant or its employees to use or occupy the Premises or any part thereof without obtaining the prior written consent of Landlord, which consent shall not be unreasonably withheld. Any such attempted assignment, subletting, license, mortgage, hypothecation, other encumbrance or other use or occupancy without the consent of Landlord shall be null and void and of no effect, Any mortgage, hypothecation or encumbrance of all or any portion of Tenant's interest in this Lease or in the Premises and any grant of a license or sufferance of any person other than Tenant or its employees

to use or occupy the Premises or any part thereof shall be deemed to be an "assignment" of this Lease. In addition, the term "Tenant" shall also mean any entity that has guaranteed Tenant's obligations under this Lease, and the restrictions applicable to Tenant contained herein shall also be applicable to such guarantor. Landlord's agreement to not unreasonably withhold its consent shall only apply to the first assignment or sublease under the Lease. Provided no event of default has occurred and is continuing tinder this Lease, upon thirty (30) days prior written notice to Landlord, Tenant may, without Landlord's prior written consent, assign this Lease to any entity into which Tenant is merged or consolidated or to an entity to which substantially all of Tenant's assets are transferred or to an entity controlled by or is commonly controlled with Tenant, provided (i) such merger, consolidation, or transfer of assets is for a good business purpose and not principally for the purpose of transferring Tenant's leasehold estate, and (ii) the assignee or successor entity has a tangible net worth, calculated in accordance with generally accepted accounting principles (and evidenced by financial statements in form reasonably satisfactory to Landlord) at least equal to the tangible net worth of Tenant immediately prior to such merger, consolidation, or transfer. The term "controlled by" or "commonly controlled with" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such controlled person or entity; the ownership, directly or indirectly, of at least fifty-one percent (51%) of the voting securities of, or possession of the right to vote, in the ordinary direction of is affairs, at least fifty-one percent (51%) of the voting interest in, any person or entity shall be presumed to constitute such control.

(b) No permitted assignment or subletting shall relieve Tenant of its obligation to pay the Rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of Rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any subletting or assignment. Consent by Landlord to one subletting or assignment shall not be deemed to constitute consent to any other or subsequent attempted subletting or assignment. If Tenant desires at any time to assign this Lease or to sublet the Premises or any portion thereof, it shall first notify Landlord of its desire to do so and shall submit in writing to Landlord all pertinent information relating to the proposed assignee or Sublessee, all pertinent information relating to the proposed assignment or sublease, and all such financial information as Landlord may reasonably request concerning the proposed assignee or subtenant. Any approved assignment or sublease shall be expressly subject to the terms and conditions of this Lease.

(c) At any time within thirty (30) days after Landlord's receipt of the information specified in subparagraph (b) above, Landlord may by written notice to Tenant elect to terminate this Lease as to the portion of the Premises so proposed to be subleased or assigned (which may include all of the Premises), with a proportionate abatement in the Rent payable- hereunder.

(d) Tenant acknowledges that it shall be reasonable for Landlord to withhold its consent to proposed assignment or sublease in any of the following instances;

(i) The assignee or Sublessee is not, in Landlord's reasonable opinion, sufficiently creditworthy to perform the obligations such assignee or Sublessee will have under this Lease;

(ii) The intended use of the Premises by the assignee or Sublessee is not the same as set forth in this Lease or otherwise reasonably satisfactory to Landlord;

(iii) The intended use of the Premises by the assignee or Sublessee would materially increase the pedestrian or vehicular traffic to the Premises or the Building;

(iv) Occupancy of the Premises by the assignee or Sublessee would, in the good faith judgment of Landlord, violate any agreement binding upon Landlord, the Building or the Project with regard to the identity of tenants, usage in the Building, or similar matters;

(v) The assignee or Sublessee is then negotiating with Landlord or has negotiated with Landlord within the previous six (6) months, or is a current tenant or subtenant within the Building or Project;

(vi) The identity or business reputation of the assignee or Sublessee will, in the good faith judgment of Landlord, tend to damage the goodwill or reputation of the Building or Project; or

(vii) in (he case of a sublease, the subtenant has not acknowledged that the Lease controls over any inconsistent provision in the sublease.

The foregoing criteria shall not exclude any other reasonable basis for Landlord to refuse its consent to such assignment or sublease.

(e) Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at ail times during the initial term and any subsequent renewals or extensions remain fully responsible and liable for the payment of the rent and for compliance with all of Tenant's other obligations under this Lease. In the event that the Rent due and payable by a Sublessee or assignee (or a combination of the rental payable under such sublease or assignment, plus any bonus or other consideration therefore or incident thereto) exceeds the Rent payable under this Lease, then Tenant shall be bound and obligated to pay Landlord, as additional rent hereunder, all such excess Rent and other excess consideration within ten (10) days following receipt thereof by Tenant,

(f) If this Lease is assigned or if the Premises is subleased (whether iti whole or in part), or in the event of the mortgage, pledge, or hypothecation of Tenant's leasehold interest, or grant of any concession or license within the Premises, or if the Premises are occupied in whole or in part by anyone other than Tenant, then upon a default by Tenant hereunder Landlord may collect Rent from the assignee, Sublessee, mortgagee, pledgee, party to whom the leasehold interest was hypothecated, concessionee or licensee or other occupant and, except to the extent set forth in the preceding paragraph, apply the amount collected to the next Rent payable hereunder; and all such Rent collected by Tenant shall be held in deposit for Landlord and immediately forwarded to Landlord, No such transaction or collection of Rent or application thereof by Landlord, however, shall be deemed a waiver of these provisions or a release of Tenant from the further performance by Tenant of its covenants, duties, or obligations hereunder.

(g) Should Tenant request of Landlord the right to assign or sublet its rights under this Lease, Landlord shall charge Tenant and Tenant shall pay to Landlord the actual cost of Landlord's legal fees up to a maximum amount of Seven Hundred Fifty and No/100 Dollars ($750.00).

(h) Notwithstanding any provision of this Lease to the contrary, in the event this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, any and all monies or other consideration payable or otherwise to be delivered in connection with such assignment shall be paid or delivered to Landlord, shall be and remain the exclusive property of Landlord and shall not constitute the property of Tenant or Tenant's estate within the meaning of the Bankruptcy Code. AH such money and other consideration not paid or delivered to Landlord shall be held in trust for the benefit of Landlord and shall be promptly paid or delivered to Landlord.

12, Except as herein expressly amended or modified the terms and conditions of the Lease are hereby ratified and confirmed and shall remain in full force and effect.

13. This Agreement shall not constitute an agreement by Landlord or Tenant and shall not be binding upon Landlord or Tenant unless and until (his Agreement shall be executed by Landlord and Tenant.

14. This Agreement may be changed only in writing, signed by both parties, and shall be binding upon and inure to the benefit of Landlord and 'Tenant, their respective heirs, successors and, as permitted, their assigns.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Sixth Amendment to Lease as of the date first written above.

LANDLORD:

ORAL ROBERTS UNIVERSITY,
An Oklahoma corporation

By: /s/ David Elsworth

Title: EVP

TENANT:

ENGLOBAL ENGINEERING, INC.
A Texas corporation

By: /s/ William A. Coskey

Title: CEO

Exhibit "A"

Floor Plan

Cityplex Towers

[GRAPHIC ON FILE]

Exhibit 14.1

ENGLOBAL CORPORATION
CODE OF BUSINESS CONDUCT AND ETHICS

Introduction

Our Corporation's reputation for honesty and integrity is the sum of the personal reputations of our directors, officers and employees. To protect this reputation and to promote compliance with laws, rules and regulations, this Code of Business Conduct and Ethics has been adopted by our Board of Directors. This Code of Conduct is only one aspect of our commitment to ethical conduct, and should be read in conjunction with the policies contained in our Employee Handbook (the "Employee Handbook").

This Code sets out the basic standards of ethics and conduct to which we hold all of our directors, officers and employees. These standards are designed to deter wrongdoing and to promote honest and ethical conduct, but will not cover all situations. If a law conflicts with a policy in this Code, you must comply with the law; however, if a local custom or policy conflicts with this Code, you must comply with the Code. If you feel that a provision of the Code conflicts with policies contained in the Employee Handbook, you should direct your concern immediately to the Corporation's Chairman of the Board.

If, you would like to resolve a concern unanimously, you should follow the anonymous reporting procedure set forth in the Employee Complaint Procedures and Non-Retaliation Policy, a copy of which is available under "Governance" on the investor relations portion of the Corporation's web site. The designated Corporation official will then review the situation and take appropriate action in keeping with this Code, the Employee Handbook, our other corporate policies and applicable law. If your concern relates to that individual, you should submit your concern to the Chair of the Audit Committee of the Corporation or to the Corporation's outside general counsel. The mailing address of each of those individuals is included at the end of this Code.

Those who violate the standards set out in this Code will be subject to disciplinary action.

1. Scope

If you are a director, officer or employee of the Corporation or any of its subsidiaries or controlled entities, you are subject to this Code.

2. Honest and Ethical Conduct

We, as a Corporation, require honest and ethical conduct from everyone who is subject to this Code. Each of you has a responsibility to all other directors, officers and employees of our Corporation, to our shareholders, and to our Corporation itself, to act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing your independent judgment to be subordinated, and otherwise to conduct yourself in a manner that meets with our ethical and legal standards.

3. Compliance with Laws, Rules and Regulations

You are required to comply with all applicable governmental laws, rules and regulations, both in letter and in spirit. Although you are not expected to know the details of all the applicable laws, rules and regulations, we expect you to seek advice from our Corporation (or if for any reason that is not practical, from our Corporation's Chief Governance Officer) if you have any questions about whether the requirement applies to the situation or what conduct may be required to comply with any law, rule or regulation. The Employee Handbook addresses in further detail the Corporation's policies and reporting procedures for specific types of violations (e.g., Equal Employment, Sexual and Other Unlawful Harassment).

4. Conflicts of Interest

You must handle in an ethical manner any actual or apparent conflict of interest between your personal and business relationships. Conflicts of interest are prohibited as a matter of policy. A "conflict of interest" exists when a person's private interest interferes in any way with the interests of our Corporation. For example, a conflict situation arises if you take actions or have interests that may make it difficult to perform your work for our Corporation objectively and effectively. Conflicts of interest also arise if you, or a member of your family, receive an improper personal benefit as a result of your position with our Corporation. Loans to, or guarantees of obligations of such persons are of special concern.

The Employee Handbook contains policies addressing specific types of conflicts of interest, including, but not limited to, gifts, and financial interests in other organizations. If you become aware of any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest, you should report it promptly pursuant to the procedure described in Section 12 of this Policy.

5. Corporate Opportunities

You are prohibited from taking for yourself personally, opportunities that are discovered through the use of corporate property, information or position, unless the Board of Directors has declined to pursue the opportunity. You may not use corporate property, information, or position for personal gain, or to compete with our Corporation directly or indirectly. You owe a duty to our Corporation to advance its legitimate interests whenever the opportunity to do so arises.

6. Fair Dealing

You should endeavor to deal fairly with our Corporation's customers, suppliers, competitors and employees and with other persons with whom our Corporation does business. You should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

7. Public Disclosures

It is our Corporation's policy to provide full, fair, accurate, timely, and understandable disclosure in all reports and documents that we file with, or submit to, the Securities and Exchange Commission and in all other public communications made by our Corporation. If you become aware of any matter that you believe should be disclosed, please contact our Investor Relation Officer, Audit Committee Chairman or outside general counsel.

8. Confidentiality

You should maintain the confidentiality of all confidential information entrusted to you by our Corporation and by persons with whom our Corporation does business, except when disclosure is authorized or legally mandated. Confidential information includes all non-public information that, if disclosed, might be of use to competitors of, or harmful to, our Corporation or persons with whom our Corporation does business. Should you have any questions about the Corporation's policy regarding confidentiality, please contact Human Resources.

9. Insider Trading

If you have access to material, non-public information concerning our Corporation, you are not permitted to use or share that information for stock trading purposes, or for any other purpose except the conduct of our Corporation's business. All non-public information about our Corporation should be considered confidential information. Insider trading, which is the use of material, non-public information for personal financial benefit, or tipping others who might make an investment decision on the basis of this information, is not only unethical but is also illegal. The prohibition on insider trading applies not only to our Corporation's securities, but also to securities of other companies if you learn of material non-public information about these companies in the course of your duties to the Corporation. Violations of this prohibition against "insider trading" may subject you to criminal or civil liability, in addition to disciplinary action by our Corporation. The Employee Handbook and Insider Trading Policy included in the Handbook provide further information regarding the Corporation's insider trading policy.

10. Protection and Proper Use of Corporation Assets

You should protect our Corporation's assets and ensure their efficient use. Theft, carelessness, and waste have a direct impact on our Corporation's profitability. All corporate assets should be used for legitimate business purposes. The obligation of employees to protect the Corporation's assets includes its intellectual property and proprietary information. Proprietary information and Intellectual Property includes trade secrets, patents, trademarks, and copyrights, as well as business, marketing and service plans, engineering and manufacturing ideas, designs, databases, records, salary information, terms of customer contracts, and any unpublished financial data and reports. Unauthorized use or distribution of this information violates Corporation policy. It could also be illegal and result in civil or criminal penalties. The Employee Handbook contains specific policies and procedures employees must follow regarding the protection of Corporation resources.

11. Interpretations and Waivers of the Code of Business Conduct and Ethics

If you are uncertain whether a particular activity or relationship is improper under this Code or requires a waiver of this Code, you should disclose it to our Chairman of the Board (or to the Chair of the Audit Committee), who will make a determination first, whether a waiver of this Code is required and second, if required, whether a waiver will be granted. You may be required to agree to conditions before a waiver or a continuing waiver is granted. However, any waiver of this Code for an executive officer or director may be made only by the Corporation's Board of Directors and will be promptly disclosed to the extent required by applicable law, rule (including any rule of any applicable stock exchange) or regulation.

12. Reporting any Illegal or Unethical Behavior

Our Corporation desires to proactively promote ethical behavior. Employees are encouraged to talk to supervisors, managers or other appropriate personnel when in doubt about the best course of action in a particular situation. Additionally, employees should promptly report violations of laws, rules, regulations or this Code pursuant to the procedures set forth in the Employee Handbook and appendices to the Handbook. Any report or allegation of a violation of applicable laws, rules, regulations or this Code need not be signed and may be sent anonymously. All reports of violations of this Code, including reports sent anonymously, will be promptly investigated and, if found to be accurate, acted upon in a timely manner. If any report of wrongdoing relates to accounting or financial reporting matters, or relates to persons involved in the development or implementation of our Corporation's system of internal controls or disclosure controls, a copy of the report will be promptly provided to the

Chair of the Audit Committee of the Board of Directors, which may participate in the investigation and resolution of the matter. It is the policy of our Corporation not to allow actual or threatened retaliation, harassment or discrimination due to reports of misconduct by others made in good faith by employees. Employees are expected to cooperate fully in internal investigations of misconduct. Please see the Employee Complaint Procedures and Non-Retaliation Policy for details on reporting illegal or unethical conduct and the protections our Corporation provides.

13. Compliance Standards and Procedures

This Code is intended as a statement of basic principles and standards and does not include specific rules that apply to every situation. Its contents have to be viewed within the framework of our Corporation's other policies, practices, instructions and the requirements of the law. This Code is in addition to other policies, practices or instructions of our Corporation that must be observed. Moreover, the absence of a specific corporate policy, practice or instruction covering a particular situation does not relieve you of the responsibility for exercising the highest ethical standards applicable to the circumstances.

In some situations, it is difficult to know right from wrong. Because this Code does not anticipate every situation that will arise, it is important that each of you approach a new question or problem in a deliberate fashion:

(a) Determine if you know all the facts.

(b) Identify exactly what it is that concerns you.

(c) Discuss the problem with a supervisor or, if the problem relates to a supervisor, with the Chairman of the Board, Audit Committee Chair or outside legal counsel.

(d) Seek help from other resources such as other management personnel or our Corporation's outside general counsel.

(e) Seek guidance before taking any action that you believe may be unethical, illegal, or dishonest.

You will be governed by the following compliance standards:

o You are personally responsible for your own conduct and for complying with all provisions of this Code and for properly reporting known or suspected violations;

o If you are a supervisor, manager, director or officer, you must use your best efforts to ensure that employees understand and comply with this Code;

o No one has the authority or right to order, request or even influence you to violate this Code or the law; a request or order from another person will not be an excuse for your violation of this Code;

o Any attempt by you to induce another director, officer or employee of our Corporation to violate this Code, whether successful or not, is itself a violation of this Code and may be a violation of law;

o Any retaliation or threat of retaliation against any director, officer or employee of our Corporation for refusing to violate this Code, or for reporting in good faith the violation or suspected violation of this Code, is itself a violation of this Code and our Whistleblower Policy and may be a violation of law; and

o Our Corporation will investigate every reported violation of this Code.

Violation of any of the standards contained in this Code, or in any other policy, practice or instruction of our Corporation, can result in disciplinary actions, including dismiss and in civil or criminal action against the violator. This Code should not be construed as a contract of employment and does not change any person's status as an at-will employee.

This Code is for the benefit of our Corporation, and no other person is entitled to enforce this Code. This Code does not, and should not be construed to, create any private cause of action or remedy in any other person for a violation of the Code.

The names, addresses, telephone numbers, facsimile numbers and e-mail addresses of the Corporation's Chairman of the Board , the Chair of the Audit Committee and the Corporation's outside general counsel are set forth below:

Chairman of the Board	Audit Committee Chair	Outside General Counsel
William A. Coskey 654 N. Sam Houston Parkway E. Suite 400 Houston, Texas 77060 281.878.1020 bill.coskey@englobal.com	Randall B. Hale ConGlobal Industries, Inc. 2777 Allen Parkway Suite 850 Houston, TX 77019 713.353.2820 rhale@cgini.com	Winstead P.C. 401 Congress Avenue Suite 2100 Austin, Texas 78701 Attn: J. Rowland Cook or Kathryn K. Lindauer 512.370-2800 rcook@winstead.com or klindauer@winstead.com

Adopted by Resolution of the Board of Directors
August 6, 2007

EXHIBIT 14.2

ENGLOBAL CORPORATION CODE OF ETHICS FOR CEO AND SENIOR FINANCIAL OFFICERS

ENGlobal Corporation (the "Corporation") has a Code of Business Conduct and Ethics applicable to all directors and employees of the Corporation. The CEO and all senior financial officers, including the CFO and principal accounting officer, are bound by the provisions set forth therein relating to ethical conduct, conflicts of interest and compliance with law. In addition to the Code of Business Conduct and Ethics, the CEO and senior financial officers are subject to the following additional specific policies:

1. The CEO and all senior financial officers are responsible for full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Corporation with the SEC. Accordingly, it is the responsibility of the CEO and each senior financial officer promptly to bring to the attention of the Audit Committee any material information of which he or she may become aware that affects the disclosures made by the Corporation in its public filings.

2. The CEO and each senior financial officer shall promptly bring to the attention of the Audit Committee any information he or she may have concerning
(a) significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's financial reporting, disclosures or internal controls.

3. The CEO and each senior financial officer shall promptly bring to the attention of the CEO and to the Audit Committee any information he or she may have concerning any violation of the Corporation's Code of Business Conduct and Ethics, including any actual or apparent conflicts of interest between personal and professional relationships, involving any management or other employees who have a significant role in the Corporation's financial reporting, disclosures or internal controls.

4. The CEO and each senior financial officer shall promptly bring to the attention of the CEO and to the Audit Committee any information he or she may have concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to the Corporation and the operation of its business, by the Corporation or any agent thereof, or of violation of the Code of Business Conduct and Ethics or of these additional procedures.

5. The Board of Directors shall determine, or designate appropriate persons to determine, appropriate actions to be taken in the event of violations of the Code of Business Conduct and Ethics or of these additional procedures by the CEO and the Corporation's senior financial officers. Such actions shall be reasonably designed to deter wrongdoing and to promote accountability for adherence to the Code of Business Conduct and Ethics and to these additional procedures, and shall include written notices to the individual involved that the Board has determined that there has been a violation, censure by the Board, demotion or re-assignment of the individual involved, suspension with or without pay or benefits (as determined by the Board) and termination of the individual's employment. In determining what action is appropriate in a particular case, the Board of Directors or such designee shall take into account all relevant information, including the nature and severity of the violation, whether the violation was a single occurrence or repeated occurrences, whether the violation appears to have been intentional or inadvertent, whether the individual in question had been advised prior to the violation as to the proper course of action and whether or not the individual in question had committed other violations in the past.

Adopted by Resolution of the Board of Directors August 6, 2007

EXHIBIT 21.1
SUBSIDIARIES OF REGISTRANT

ENGlobal Corporate Services, Inc.	Incorporated in the State of Texas
ENGlobal Engineering, Inc.	Incorporated in the State of Texas
ENGlobal Systems, Inc.	Incorporated in the State of Texas
ENGlobal Construction Resources, Inc.	Incorporated in the State of Texas
RPM Engineering, Inc. d/b/a ENGlobal Engineering, Inc.	Incorporated in the State of Louisiana
ENGlobal Automation Group, Inc.	Incorporated in the State of Texas
ENGlobal Technical Services, Inc.	Incorporated in the State of Texas
ENGlobal Canada, ULC	Incorporated in the Province of Alberta, Canada
ENGlobal Land, Inc. f/k/a WRC Corporation	Incorporated in the State of Colorado
WRC Canada	Incorporated in the Province of Alberta, Canada

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements (No. 333-127803, No. 333-113554, and No. 333-105966) on Form S-8 and in the Registration Statements (No.333-136830 and No. 333-129336)on Form S-3 of ENGlobal Corporation of our reports dated March 27, 2008, relating to our audits of the consolidated financial statements, the financial statement schedule and internal control over financial reporting, which appear in the Annual Report on Form 10-K of ENGlobal Corporation for the year ended December 31, 2007.

Our report dated March 27, 2008, on the effectiveness of internal control over financial reporting as of December 31, 2007, expressed an opinion that ENGlobal Corporation had not maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Hein & Associates LLP

Hein & Associates LLP.
Houston, Texas
March 27, 2008

EXHIBIT 31.1

Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, William A. Coskey, certify that:

1. I have reviewed this report on Form 10-K of ENGlobal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting;

Date: March 27, 2008

//s// William A. Coskey
William A. Coskey
Chief Executive Officer

EXHIBIT 31.2

Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert W. Raiford, certify that:

1. I have reviewed this report on Form 10-K of ENGlobal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2008

//s// Robert W. Raiford
Robert W. Raiford
Chief Financial Officer

EXHIBIT 32.1

Certification by the Chief Executive Officer Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U. S. C. Section 1350, I, William A. Coskey, hereby certify that, to the best of my knowledge, the Annual Report on Form 10-K of ENGlobal Corporation for the fiscal year ended December 31, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ENGlobal Corporation.

Date: March 27, 2008

//s// William A. Coskey
William A. Coskey
Chief Executive Officer

This certification accompanies this Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

EXHIBIT 32.2

Certification by the Chief Executive Officer Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U. S. C. Section 1350, I, Robert W. Raiford, hereby certify that, to the best of my knowledge, the Annual Report on Form 10-K of ENGlobal Corporation for the fiscal year ended December 31, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ENGlobal Corporation.

Date: March 27, 2008

//s// Robert W. Raiford
Robert W. Raiford
Chief Financial Officer

This certification accompanies this Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.