MORGAN STANLEY QUALITY MUNICIPAL SECURITIES
Form N-CSR
January 11, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number: 811-07560
Morgan Stanley Quality Municipal Securities
(Exact name of registrant as specified in charter)

522 Fifth Avenue, New York, New York 10036
(Address of principal executive offices) (Zip code)

Randy Takian
522 Fifth Avenue, New York, New York 10036
(Name and address of agent for service)

Registrant s telephone number, including area code: 212-296-6990
Date of fiscal year end: October 31, 2009
Date of reporting period: October 31, 2009

Item 1 Report to Shareholders

INVESTMENT MANAGEMENT

Welcome, Shareholder:

In this report, you ll learn about how your investment in Morgan Stanley Quality Municipal Securities performed during the annual period. We will provide an overview of the market conditions, and discuss some of the factors that affected performance during the reporting period. In addition, this report includes the Trust s financial statements and a list of Trust investments.

Market forecasts provided in this report may not necessarily come to pass. There is no assurance that the Trust will achieve its investment objective. The Trust is subject to market risk, which is the possibility that market values of securities owned by the Trust will decline and, therefore, the value of the Trust s shares may be less than what you paid for them. Accordingly, you can lose money investing in this Trust.

Income earned by certain securities in the portfolio may be subject to the federal alternative minimum tax (AMT).

Trust Report

For the year ended October 31, 2009

Market Conditions

The municipal market rebounded strongly in early 2009, after struggling through one of the most challenging periods in the history of the financial markets. Not only has the municipal market performed solidly this year, but it has done so with less volatility than has been seen in the taxable market.

The recovery began in March when certain economic indicators stabilized or improved, suggesting that perhaps the contraction in economic growth was slowing. Credit conditions also became more favorable, thanks to the various initiatives of the Federal Reserve and the government to inject liquidity into the financial system. In the months that followed, positive news on the corporate, banking and economic fronts helped bolster investor confidence, sustaining the financial market s rally throughout the end of October.

Strong demand for municipal bonds, a limited supply of new issues, and renewed investor risk appetite led to marked improvement in municipal market performance, particularly for the higher yielding segment. Although high yield issues underperformed early in the reporting period, they have considerably outpaced higher quality, lower yielding issues for much of this year. As a result, the high yield segment of the market slightly outperformed the investment grade segment for the overall 12-month reporting period.

While many states are currently facing budgetary challenges, California has perhaps received more press than most. The state still benefits from its large and diverse economic base and above-average wealth levels. However, its large exposure to the housing crisis, falling tax revenues and recent budgetary shortfalls pose considerable challenges. Although the rating agencies have downgraded the state s credit rating and the market has reacted accordingly, the negative impact has been tempered somewhat by the increasing issuance of taxable Build America Bonds and the continued decrease in supply of tax-exempt debt. It should also be noted that while the Trust has a relatively higher allocation to California municipal bonds, these holdings are concentrated in high quality, essential services sectors that tend to be less economically-sensitive.

Performance Analysis

For the 12-month period ended October 31, 2009, the net asset value (NAV) of Morgan Stanley Quality Municipal Securities (IQM) increased from $12.37 to $13.97 per share. Based on this change plus reinvestment of tax-free dividends totaling $0.76375 per share, the Trust s total NAV return was 20.63 percent. IQM s value on the New York Stock Exchange (NYSE) moved from $10.55 to $12.80 per share during the same period. Based on this change plus reinvestment of dividends, the Trust s total market return was 29.60 percent. IQM s NYSE market price was at a 8.38 percent discount to its NAV. *Past performance is no guarantee of future results.*

Monthly dividends for October 2009 were unchanged at $0.06625 per share. The dividend reflects the current level of the Trust s net investment income. IQM s level of undistributed net investment income was $0.186 per share on October 31, 2009 versus $0.049 per share 12 months earlier.[1]

A focus on higher quality municipal securities has detracted slightly from relative performance in recent months as lower quality issues have outperformed in
2

2009. However, this positioning enhanced returns early in the reporting period when risk aversion and widening credit spreads led the higher quality segment of the market to outperform lower quality, riskier securities.

The portfolio s focus on longer maturity issues contributed greatly to performance in 2009 as spreads on these issues tightened dramatically. Overweight allocations to essential services sectors also enhanced returns during the period as these securities have performed relatively well.

The Trust s procedure for reinvesting all dividends and distributions in common shares is through purchases in the open market. This method helps support the market value of the Trust s shares. In addition, we would like to remind you that the Trustees have approved a share repurchase program whereby the Trust may, when appropriate, purchase shares in the open market or in privately negotiated transactions at a price not above market value or net asset value, whichever is lower at the time of purchase.

The Trust may also take action to reduce or eliminate the amount of Auction Rate Preferred Shares (ARPS) outstanding.

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. Investment return, net asset value and common share market price will fluctuate and Trust shares, when sold, may be worth more or less than their original cost.

There is no guarantee that any sectors mentioned will continue to perform as discussed herein or that securities in such sectors will be held by the Trust in the future.

[1] *Income earned by certain securities in the portfolio may be subject to the federal alternative minimum tax (AMT).*

TOP FIVE SECTORS as of 10/31/09	
General Obligation	16.3%
Hospital	12.9
Other Revenue	11.9
Airport	11.2
Water/Sewer	9.3

LONG-TERM CREDIT ANALYSIS as of 10/31/09	
Aaa/AAA	26.9%
Aa/AA	36.3
A/A	24.8
Baa/BBB	8.6
Ba/BB or Less	1.1
Non-Rated	2.3

SUMMARY OF INVESTMENTS BY STATE CLASSIFICATION as of 10/31/09	
California	26.0 %
Texas	15.2
Illinois	13.8
New York	12.6
Florida	9.4
Hawaii	8.9
Virginia	7.4
South Carolina	6.6
Georgia	6.2
Washington	5.5
Massachusetts	3.8
Ohio	3.5
Arizona	3.4
New Jersey	3.0
District of Columbia	2.4
Colorado	2.3
Nebraska	2.3
Nevada	1.9
Indiana	1.8
Pennsylvania	1.7
Iowa	1.4
Alaska	1.1
Maryland	1.0
Michigan	0.9
Alabama	0.9
Utah	0.9
New Hampshire	0.8
Rhode Island	0.8
Wisconsin	0.6
Tennessee	0.5

New Mexico	0.5
Puerto Rico	0.5
Kansas	0.2
Maine	0.0
Total Long-Term Investments	147.8
Short-Term Investment	0.4
Other Assets in Excess of Liabilities	2.1
Floating Rate Note and Dealer Trusts Obligations	(21.0)
Preferred Shares of Beneficial Interest	(29.3)
Net Assets Applicable to Common Shareholders	100.0 %

Does not include open long/short futures contracts with an underlying face amount of $31,654,955 with net unrealized appreciation of $324,970.

Subject to change daily. Provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned or securities in the sectors shown above. Top five sectors are as a percentage of total investments. Long-term credit analysis is as a percentage of long-term investments. Summary of investments by state classification are as a percentage of net assets applicable to common shareholders. Securities are classified by sectors that represent broad groupings of related industries. Morgan Stanley is a full-service securities firm engaged in securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services. Rating allocations based upon ratings as issued by Standard and Poor s and Moody s, respectively.

4

For More Information About Portfolio Holdings

Each Morgan Stanley trust provides a complete schedule of portfolio holdings in its semiannual and annual reports within 60 days of the end of the trust s second and fourth fiscal quarters. The semiannual reports and the annual reports are filed electronically with the Securities and Exchange Commission (SEC) on Form N-CSRS and Form N-CSR, respectively. Morgan Stanley also delivers the semiannual and annual reports to trust shareholders and makes these reports available on its public web site, www.morganstanley.com. Each Morgan Stanley trust also files a complete schedule of portfolio holdings with the SEC for the trust s first and third fiscal quarters on Form N-Q. Morgan Stanley does not deliver the reports for the first and third fiscal quarters to shareholders, nor are the reports posted to the Morgan Stanley public web site. You may, however, obtain the Form N-Q filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC s web site, http://www.sec.gov. You may also review and copy them at the SEC s public reference room in Washington, DC. Information on the operation of the SEC s public reference room may be obtained by calling the SEC at (800) SEC-0330. You can also request copies of these materials, upon payment of a duplicating fee, by electronic request at the SEC s e-mail address (publicinfo@sec.gov) or by writing the public reference section of the SEC, Washington, DC 20549-1520.

Investment Advisory Agreement Approval

Nature, Extent and Quality of Services

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Investment Adviser (as defined herein) under the advisory agreement, including portfolio management, investment research and equity and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Trust s Administrator (as defined herein) under the administration agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Investment Adviser s expense. (The Investment Adviser and the Administrator together are referred to as the Adviser and the advisory and administration agreements together are referred to as the Management Agreement.) The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Lipper Inc. (Lipper).

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the advisory and administrative services to the Trust. The Board determined that the Adviser s portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Trust. The Board also concluded that the overall quality of the advisory and administrative services was satisfactory.

Performance, Fees and Expenses of the Trust

The Board reviewed the performance, fees and expenses of the Trust compared to its peers, as determined by Lipper, and to appropriate benchmarks where applicable. The Board discussed with the Adviser the performance goals and the actual results achieved in managing the Trust. When considering a fund s performance, the Board and the Adviser place emphasis on trends and longer-term returns (focusing on one-year, three-year and five-year performance, as of December 31, 2008, as applicable). When a fund underperforms its benchmark and/or its peer group average, the Board and the Adviser discuss the causes of such underperformance and, where necessary, they discuss specific changes to investment strategy or investment personnel. The Board noted that the Trust s performance was better than its peer group average for the one-, three- and five-year periods. The Board discussed with the Adviser the level of the advisory and administration fees (together, the management fee) for this Trust relative to comparable funds advised by the Adviser and compared to its peers as determined by Lipper. In addition to the management fee, the Board also reviewed the Trust s total expense ratio. The Board noted that the management fee and total expense ratio were lower than the peer group average. After discussion, the Board concluded that the Trust s management fee, total expense ratio and performance were competitive with the peer group average.

Economies of Scale

The Board considered the size and growth prospects of the Trust and how that relates to the Trust s total expense ratio and particularly the Trust s management fee rate, which does not include breakpoints. In conjunction with its review of the Adviser s profitability, the Board discussed with the Adviser how a change in assets can affect the efficiency or effectiveness of managing the Trust and whether the management fee level is appropriate relative to current and projected asset levels and/or whether the management fee structure reflects economies of scale as asset levels change. The Board considered that, with respect to closed-end funds, the assets are not likely to grow with new sales or grow significantly as a result of capital appreciation. The Board concluded that economies of scale for the Trust were not a factor that needed to be considered at the present time.

Profitability of the Adviser and Affiliates

The Board considered information concerning the costs incurred and profits realized by the Adviser and its affiliates during the last year from their relationship with the Trust and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. The Board has determined that its review of the analysis of the Adviser s expenses and profitability supports its decision to approve the Management Agreement.

Other Benefits of the Relationship

The Board considered other benefits to the Adviser and its affiliates derived from their relationship with the Trust and other funds advised by the Adviser. These benefits may include, among other things, float benefits derived from handling of checks for purchases and sales, research received by the Adviser generated from commission dollars spent on funds portfolio trading and fees for distribution and/or shareholder servicing. The Board reviewed with the Adviser each of these arrangements and the reasonableness of its costs relative to the services performed. The Board has determined that its review of the other benefits received by the Adviser or its affiliates supports its decision to approve the Management Agreement.

Resources of the Adviser and Historical Relationship Between the Trust and the Adviser

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board also reviewed and considered the historical relationship between the Trust and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Trust s operations and the Board s confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement and that it is beneficial for the Trust to continue its relationship with the Adviser.

Other Factors and Current Trends

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Trust s Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Trust s business.

General Conclusion

After considering and weighing all of the above factors, the Board concluded that it would be in the best interest of the Trust and its shareholders to approve renewal of the Management Agreement for another year. In reaching this conclusion the Board did not give particular weight to any single factor referenced above. The Board considered these factors over the course of numerous meetings, some of which were in executive session with only the Independent Board members and their counsel present. It is possible that individual Board members may have weighed these factors differently in reaching their individual decisions to approve the Management Agreement.

Morgan Stanley Quality Municipal Securities
Portfolio of Investments - October 31, 2009

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
	Tax-Exempt Municipal Bonds (147.8%)			
	Alabama (0.9%)			
$ 2,000	County of Jefferson, School Ser 2004 A	5.50 %	01/01/22	$ 1,670,780
	Alaska (1.1%)			
3,000	Northern Tobacco Securitization Corp., Asset Backed Ser 2006 A	5.00	06/01/46	1,993,500
	Arizona (3.4%)			
425	Maricopa County Pollution Control Corp., Ser 2009 A	6.00	05/01/29	440,857
3,890	Salt River Project Agricultural Improvement & Power District, 2002 Ser B (a)	5.00	01/01/22	4,025,170
1,010	State of Arizona, Ser 2008 A (COPs) (FSA Insd)	5.00	09/01/24	1,059,035
1,000	Surprise Municipal Property Corp., Ser 2007	4.90	04/01/32	809,840
				6,334,902
	California (26.0%)			
1,010	Alhambra Unified School District, Ser 2009 B (AGC Insd) (b)	0.00	08/01/35	213,312
1,635	Alhambra Unified School District, Ser 2009 B (AGC Insd) (b)	0.00	08/01/36	324,237
765	Alvord Unified School District, Ser 2007 A (FSA Insd)	5.00	08/01/24	788,906
710	Beverly Hills Unified School District, Election of 2008 Ser 2009 (b)	0.00	08/01/26	309,404
1,370	Beverly Hills Unified School District, Election of 2008 Ser 2009 (b)	0.00	08/01/31	438,153
3,000	California Health Facilities Financing Authority, Cedars-Sinai Medical Center Ser 2005	5.00	11/15/34	2,840,160
5,000	California State Public Works Board, Mental Health 2004 Ser A	5.00	06/01/24	4,770,500
540	City & County of San Francisco, Refg Laguna Honda Hospital Ser 2008 R-3 (AGC Insd) (a)	5.00	06/15/28	554,966
355	Clovis Unified School District, Election of 2004 Ser A (NATL-RE & FGIC Insd) (b)	0.00	08/01/29	110,430
1,000		5.00	09/01/34	814,160

	County of San Diego, Burnham Institute for Medical Research Ser 2006 (COPs)			
2,690	Dry Creek Joint Elementary School District, Election 2008 Ser 2009 E (b)	0.00	08/01/43	277,608
4,825	Dry Creek Joint Elementary School District, Election 2008 Ser 2009 E (b)	0.00	08/01/44	464,744
1,980	El Segundo Unified School District, 2008 Ser A (b)	0.00	08/01/32	504,563
2,000	Golden State Tobacco Securitization Corp., Enhanced Asset Backed Ser 2005 A (AMBAC Insd)	5.00	06/01/29	1,849,300
4,000	Golden State Tobacco Securitization Corp., Enhanced Asset Backed Ser 2007 A-1	5.125	06/01/47	2,657,560
1,400	Golden State Tobacco Securitization Corp., Enhanced Asset Backed Ser 2007 A-1	5.75	06/01/47	1,034,432
310	Indio Redevelopment Agency, Ser 2008 A	5.00	08/15/23	298,025

See Notes to Financial Statements

Morgan Stanley Quality Municipal Securities
Portfolio of Investments - October 31, 2009 *continued*

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
$ 310	Indio Redevelopment Agency, Ser 2008 A	5.00 %	08/15/24	$ 295,328
4,000	Los Angeles Community College District, California, 2003 Ser B (FSA Insd)	5.00	08/01/27	4,107,000
5,000	Los Angeles Department of Water & Power, 2004 Ser C (NATL-RE Insd) (a)	5.00	07/01/23	5,201,807
1,010	Menifee Union School District, Election of 2008 Ser 2009 C (AGC Insd) (b)	0.00	08/01/34	212,373
3,040	Milpitas Redevelopment Agency, Area #1 Ser 2003 (NATL-RE Insd)	5.00	09/01/22	3,022,733
1,120	Moreland School District, Ser 2014 C (AMBAC Insd) (b)	0.00	08/01/29	333,054
815	Oak Grove School District, Election 2008 Ser A (b)	0.00	08/01/28	262,194
4,025	Patterson Joint Unified School District, Election of 2008 Ser 2009 B (FSA Insd) (b)	0.00	08/01/36	723,292
1,590	Patterson Joint Unified School District, Election of 2008 Ser 2009 B (FSA Insd) (b)	0.00	08/01/37	263,686
2,040	Poway Unified School District, School Facilities Improvement District No. 07-1, 2008 Election Ser A (b)	0.00	08/01/27	729,157
2,545	Poway Unified School District, School Facilities Improvement District No. 07-1, 2008 Election Ser A (b)	0.00	08/01/31	690,153
20,480	San Bernardino Community College District, Ser 2009 B (b)	0.00	08/01/48	1,760,666
4,240	San Diego County Water Authority, Ser 2004 A (COPs) (FSA Insd) (a)	5.00	05/01/29	4,305,148
465	San Rafael City High School District, Election Ser 2002 B (NATL-RE & FGIC Insd) (b)	0.00	08/01/25	192,436
3,000	State of California, Various Purpose dtd 05/01/03	5.00	02/01/32	2,841,720
2,000	State of California, Various Purpose dtd 12/01/05	5.00	03/01/27	1,979,300
2,000	Tobacco Securitization Authority of Northern California, Sacramento County Tobacco Securitization Corporation Ser 2006 A-1	5.00	06/01/37	1,506,260
850	Twin Rivers Unified School District, Ser 2009 (BANs) (b)	0.00	04/01/14	683,476
1,170	William S Hart Union High School District, Ser 2009 A (b)	0.00	08/01/32	282,766
5,725		0.00	08/01/33	1,296,941

	William S Hart Union High School District, Ser 2009 A (b)			
				48,939,950
	Colorado (2.3%)			
2,590	Arkansas River Power Authority, Power Ser 2006 (XLCA Insd)	5.25	10/01/40	2,320,148
2,000	Colorado Health Facilities Authority, Adventist/Sunbelt Ser 2006 D (WI)	5.00	07/01/39	1,896,320
165	Public Authority for Colorado Energy, Natural Gas Ser 2008	6.25	11/15/28	171,432
				4,387,900
	District of Columbia (2.4%)			
1,540	District of Columbia, Income Tax, Ser 2009 A (a)	5.25	12/01/27	1,694,071
2,000	District of Columbia Ballpark, Ser 2006 B-1 (NATL-RE & FGIC Insd)	5.00	02/01/31	1,824,000
1,000	Metropolitan Washington Airports Authority, Airport System Ser 2009 B (BHAC Insd)	5.00	10/01/29	1,050,240
				4,568,311

See Notes to Financial Statements

Morgan Stanley Quality Municipal Securities
Portfolio of Investments - October 31, 2009 *continued*

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
	Florida (9.4%)			
$ 5,000	County of Miami-Dade, Miami Int 1 Airport Ser 2000 A (AMT) (NATL-RE & FGIC Insd)	6.00 %	10/01/24	$ 5,078,400
800	County of Miami-Dade, Miami Int 1 Airport Ser 2009 A (AGC Insd)	5.00	10/01/25	836,912
1,995	County of Miami-Dade, Ser 2005 A (NATL-RE Insd) (c)	0.00	10/01/30	1,362,046
25	Highlands County Health Facilities Authority, Adventist Health/Sunbelt Ser 2006 C	5.25	11/15/16(d)	29,077
975	Highlands County Health Facilities Authority, Adventist Health/Sunbelt Ser 2006 C	5.25	11/15/36	942,201
1,000	Lee County Industrial Development Authority, Shell Point Village/The Alliance Community for Retirement Living Inc., Ser 2006	5.125	11/15/36	763,960
750	Palm Beach County Solid Waste Authority, Ser 2009 (BHAC Insd)	5.50	10/01/23	835,492
4,000	South Miami Health Facilities Authority, Baptist Health South Florida Ser 2007 (a)	5.00	08/15/42	3,632,776
3,250	St Johns County Industrial Development Authority, Glenmoor Refg 2006 Ser A	5.375	01/01/40	2,274,415
1,000	St Johns County Industrial Development Authority, Glenmoor Ser 2006 A	5.25	01/01/26	762,530
1,000	Tampa Bay Water Utility System Revenue, Ser 2001 A (NATL-RE & FGIC Insd)	6.00	10/01/29	1,228,950
				17,746,759
	Georgia (6.2%)			
5,000	City of Atlanta, Airport Passenger Facilities Sub-Lien Ser 2004 C (FSA Insd) (a)	5.00	01/01/33	5,079,425
1,200	County of Dekalb, Water & Sewer Ser 2003 A	5.00	10/01/23	1,257,780
2,000	Georgia State Road & Tollway Authority, Ser 2003	5.00	10/01/22	2,119,460
3,000	Georgia State Road & Tollway Authority, Ser 2003	5.00	10/01/23	3,169,260
				11,625,925

	Hawaii (8.9%)			
8,000	City & County of Honolulu, Ser 2003 A (NATL-RE Insd) (a)	5.25	03/01/24	8,643,720
5,000	Hawaii State Department of Budget & Finance, Hawaiian Electric Co Inc Ser 1993 (AMT) (NATL-RE Insd)	5.45	11/01/23	5,000,700
3,000	State of Hawaii, Airports Refg Ser 2000 B (AMT) (NATL-RE & FGIC Insd)	6.625	07/01/18	3,064,290
				16,708,710
	Illinois (13.8%)			
3,600	Chicago Park District, Harbor Ser A (AMBAC Insd) (e)	5.00	01/01/27	3,708,432
1,070	Chicago Transit Authority, Ser 2008 (AGC Insd)	5.25	06/01/23	1,155,696
3,000	City of Chicago, O Hare Int l Airport 3rd Lien Ser 2005 A (NATL-RE Insd)	5.25	01/01/26	3,111,660
3,000	City of Chicago, O Hare Int l Airport Passenger Fee Ser 2001 A (AMT) (AMBAC Insd)	5.375	01/01/32	2,838,240
4,590	City of Chicago, Project & Refg Ser 2007 A (FGIC & FSA Insd) (CR) (a)	5.00	01/01/37	4,672,712

See Notes to Financial Statements

Morgan Stanley Quality Municipal Securities
Portfolio of Investments - October 31, 2009 *continued*

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
$ 725	De Kalb County Community United School District No 428 (FSA Insd)	5.00 %	01/01/23	$ 777,671
965	Illinois Finance Authority, Northwestern Memorial Hospital Ser 2009 B	5.375	08/15/24	1,018,683
415	Illinois Finance Authority, Rush University Medical Center Obligated Group Ser 2009 A	7.25	11/01/38	462,596
2,780	Kendall Kane & Will Counties Community Unit School District No. 308, (FSA Insd) (b)	0.00	02/01/20	1,720,209
8,480	Metropolitan Pier & Exposition Authority, McCormick Place Ser 2002 A (NATL-RE Insd) (c)	0.00	06/15/26	6,423,855
				25,889,754
	Indiana (1.8%)			
3,000	Indiana Health & Educational Facilities Financing Authority, Clarian Health Ser 2006 A	5.25	02/15/40	2,822,490
530	Rockport, Indian Michigan Power Company Project Refg Ser 2009 B	6.25	06/01/25	576,507
				3,398,997
	Iowa (1.4%)			
1,355	State of Iowa, IJOBS Program Ser 2009 A (a)	5.00	06/01/25	1,465,470
1,015	State of Iowa, IJOBS Program Ser 2009 A (a)	5.00	06/01/26	1,093,962
				2,559,432
	Kansas (0.2%)			
470	Kansas Development Finance Authority Hospital Revenue, Adventist Health System Sunbelt Obligated Group Ser 2009 C	5.50	11/15/29	484,246
	Maine (0.0%)			
60	Maine Health & Higher Educational Facilities Authority, Ser 1993 D (FSA Insd)	5.50	07/01/18	60,097
	Maryland (1.0%)			

705	County of Baltimore, Oak Crest Village Ser 2007 A	5.00	01/01/37	665,005
1,440	Maryland Health & Higher Educational Facilities Authority, King Farm Presbyterian Community 2006 Ser B	5.00	01/01/17	1,305,346
				1,970,351
	Massachusetts (3.8%)			
4,850	Massachusetts Health & Educational Facilities Authority, Harvard University Ser A (a)	5.50	11/15/36	5,414,313
1,570	Massachusetts Health & Educational Facilities Authority, Massachusetts Institute of Technology Ser O (a)	5.50	07/01/36	1,746,957
				7,161,270

See Notes to Financial Statements

Morgan Stanley Quality Municipal Securities
Portfolio of Investments - October 31, 2009 *continued*

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
	Michigan (0.9%)			
	City of Detroit Water Supply System, Refg			
$ 900	Ser 2006 C (FSA Insd)	5.00 %	07/01/26	$ 912,159
	Michigan State Hospital Finance Authority,			
870	Henry Ford Health Refg Ser 2006 A	5.25	11/15/46	760,241
				1,672,400
	Nebraska (2.3%)			
	Nebraska Public Power District, 2003 Ser A			
4,240	(AMBAC Insd)	5.00	01/01/35	4,282,146
	Nevada (1.9%)			
	County of Clark, Nevada, Airport Sub Lien			
3,000	Ser 2004 A-1 (AMT) (NATL-RE & FGIC Insd)	5.50	07/01/20	3,053,430
	Las Vegas Redevelopment Agency, Tax			
410	Increment Ser 2009 A	6.25	06/15/16	454,645
				3,508,075
	New Hampshire (0.8%)			
	City of Manchester, Water Works Ser 2003			
1,500	(NATL-RE & FGIC Insd)	5.00	12/01/34	1,523,175
	New Jersey (3.0%)			
	New Jersey Economic Development Authority,			
1,500	Seabrook Village Inc. Ser 2006	5.25	11/15/36	1,142,160
	New Jersey Transportation			
	Trust Fund Authority, Ser 2006 C			
4,300	(AGC Insd) (b)	0.00	12/15/26	1,791,724
	Tobacco Settlement Financing Corp.,			
3,000	Ser 2007-1 A	4.625	06/01/26	2,452,470
	Tobacco Settlement Financing Corp.,			
3,000	Ser 2007-1 B (b)	0.00	06/01/41	199,380
				5,585,734
	New Mexico (0.5%)			
940	New Mexico Finance Authority, Senior Lien	5.00	06/01/27	999,981
	Public Project Revolving			

	Fund Ser 2008 A			
	New York (12.6%)			
980	City of New York NY, 2009 Subser A-1 (a)	5.25	08/15/27	1,043,977
980	City of New York NY, 2009 Subser A-1 (a)	5.25	08/15/28	1,043,977
5,000	Metropolitan Transportation Authority, Transportation Ser 2003 B (NATL-RE Insd)	5.25	11/15/22	5,190,950
1,305	New York City Transitional Finance Authority, 2010 Subser A-1 (a)	5.00	05/01/28	1,388,007
1,045	New York City Transitional Finance Authority, 2010 Subser A-1 (a)	5.00	05/01/29	1,111,469
1,045	New York City Transitional Finance Authority, 2010 Subser A-1 (a)	5.00	05/01/30	1,111,469
705	New York State Dormitory Authority, New York University (AMBAC Insd)	5.50	05/15/29	760,568
1,310	New York State Thruway Authority, Personal Income Tax Transportation Ser 2009 A (NATL-RE Insd)	5.00	03/15/25	1,423,040

See Notes to Financial Statements

Morgan Stanley Quality Municipal Securities
Portfolio of Investments - October 31, 2009 *continued*

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
$ 6,000	Tobacco Settlement Financing Corp., State Contingency Ser 2003 B-1C	5.50 %	06/01/21	$ 6,314,280
2,000	Triborough Bridge & Tunnel Authority, Refg Ser 2002 B	5.25	11/15/19	2,180,600
1,950	Trust for Cultural Resources, The Museum of Modern Art, Refg Ser 2008-1-A (a)	5.00	04/01/27	2,101,533
				23,669,870
	Ohio (3.5%)			
1,000	American Municipal Power-Ohio Inc, Prairie State Energy Campus Ser 2008 A (AGC Insd) (a)	5.25	02/15/33	1,033,346
5,000	County of Cuyahoga, Cleveland Clinic Ser 2003 A	6.00	01/01/32	5,264,550
265	Ohio State Water Development Authority, Ser 2009 A	5.875	06/01/33	278,971
				6,576,867
	Pennsylvania (1.7%)			
2,000	Allegheny County Hospital Development Authority, West Penn Allegheny Health Ser 2007 A	5.375	11/15/40	1,549,400
1,500	Philadelphia School District, Ser 2008 E (BHAC Insd)	5.125	09/01/23	1,624,485
				3,173,885

	Puerto Rico (0.5%)						
875	Puerto Rico Sales Tax Financing Corp., Ser 2009 A	5.00	08/01/39	909,387			
	Rhode Island (0.8%)						
1,500	Rhode Island Economic Development Corp., Airport Refg Ser 2004 A (AMT) (FSA Insd)	5.00	07/01/21	1,505,160			
	South Carolina (6.6%)						
2,000	Charleston Educational Excellence Finance Corp., Charleston County School District Ser 2005	5.25	12/01/29	2,065,040			
210	County of Richland, Environmental Improvement, Paper Co. Ser 2007 A	4.60	09/01/12	211,709			
4,565	Grand Strand Water & Sewer Authority, Refg Ser 2002 (FSA Insd)	5.375	06/01/19	4,936,911	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	P (

y	8,669,035(3)	32.3%
o	43,578(4)	*
ent	316,176(5)	1.2%
ale	288,176(6)	1.1%
el	256,176(7)	*
eall	874(8)	*
:	874(9)	*
e	20,537(10)	*
ll	9,311(11)	*
d	50,035(12)	*
	83,266(13)	*

rs		
s		
(9		
s)	9,676,077(14)	35.4%

* Represents less than 1% of the shares of common stock outstanding.

(1)Beneficial ownership of common stock has been determined for this purpose in accordance with Rule 13d-3 under the Exchange Act, under which a person is deemed to be the beneficial owner of securities if such person has or shares voting power or investment power with respect to such securities, has the right to acquire beneficial ownership within 60 days, or acquires such securities with the purpose or effect of changing or influencing the control of ENGlobal.

(2)Based on 26,813,332 shares issued and outstanding on March 31, 2012.

(3)Includes 8,668,935 shares of common stock held in the name of Alliance 2000, Ltd., whose general partner is jointly owned by Mr. Coskey and his spouse. Mr. Coskey has shared power to vote and dispose of such shares.

(4)Does not include 20,162 unvested shares of restricted stock which were granted to Mr. Pagano in June 2010 which will vest in two additional equal installments on December 31, 2012 and December 31, 2013. Does not include 17,149 unvested shares of restricted stock which were granted to Mr. Pagano in June 2011 which will vest in three additional equal installments on December 31, 2012, December 31, 2013 and December 31, 2014.

(5)Includes options held by Mr. Gent to acquire an aggregate 210,000 shares of common stock that are exercisable on or within 60 days of March 31, 2012. Does not include 6,097 unvested shares of restricted stock which were granted in June 2011 and will vest in June 2012.

(6)Includes options held by Mr. Hale to acquire an aggregate 150,000 shares of common stock that are exercisable on or within 60 days of March 31, 2012. Does not include 6,097 unvested shares of restricted stock which were granted in June 2011 and will vest in June 2012.

(7)Includes options held by Mr. Roussel to acquire an aggregate 190,000 shares of common stock that are exercisable on or within 60 days of March 31, 2012. Does not include 6,097 unvested shares of restricted stock which were granted in June 2011 and will vest in June 2012.

(8)Does not include 2,623 unvested shares of restricted stock which were granted to Mr. Beall in November 2011 which will vest in three additional equal installments on December 31, 2012, December 31, 2013 and December 31, 2014.

(9)Does not include 2,623 unvested shares of restricted stock which were granted to Mr. Bryant in November 2011 which will vest in three additional equal installments on December 31, 2012, December 31, 2013 and December 31, 2014.

(10) Does not include 5,252 unvested shares of restricted stock which were granted to Mr. Rennie in September 2010 which will vest in two additional equal installments on December 31, 2012 and December 31, 2013. Does not include 6,555 unvested shares of restricted stock which were granted to Mr. Rennie in November 2011 which will vest in three additional equal installments on December 31, 2012, December 31, 2013 and December 31, 2014. Includes 300 shares of common stock directly held by Mr. Rennie's spouse.

(11) Does not include 3,933 unvested shares of restricted stock which were granted to Ms. Southall in November 2011 which will vest in three additional equal installments on December 31, 2012, December 31, 2013 and December 31, 2014.

(12) Effective July 8, 2011, Mr. Raiford resigned his role as Chief Financial Officer of ENGlobal.

(13) Effective March 2, 2012, Ms. Leedy's employment terminated. Includes 75,000 shares of common stock issuable upon exercise of options which were forfeited as of April 2, 2012. Does not include 9,186 unvested shares of restricted stock which were forfeited in connection with her termination.

(14) Includes options to acquire an aggregate 550,000 shares of common stock that are exercisable on or within 60 days of March 31, 2012. Does not include 76,588 shares of unvested restricted stock granted to our directors and executive officers. The number of shares beneficially owned by all directors and executives as a group represents approximately 35.0% of our outstanding common stock as of March 31, 2012.

Principal Shareholders

The following table sets forth information as of March 31, 2012 about persons whom we know to be the beneficial owners of more than 5% of our issued and outstanding common stock based solely on our review of the statement of beneficial ownership filed by these persons/entities with the SEC as of the date of such filing:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)		Percent of Class (1),(2)
Alliance 2000, Ltd. c/o 654 N. Sam Houston Pkwy. E. Suite 400 Houston, TX 77060-5914	8,668,935	(3)	31.8%
NGP Energy Technology Partners II, L.P. NGP ETP II, L.L.C. Energy Technology Partners, L.L.C. Philip J. Deutch c/o 1700 K Street NW, Suite 750 Washington, D.C. 20006	2,435,635	(4)	9.15%
Prescott Group Capital Management, L.L.C. Prescott Group Aggressive Small Cap, L.P. Prescott Group Aggressive Small Cap II, L.P. Phil Frohlich c/o 1924 South Utica, Suite 1120 Tulsa, Oklahoma 74104-6529	1,755,767	(5)	6.6%

(1) Beneficial ownership of common stock has been determined for this purpose in accordance with Rule 13d-3 under the Exchange Act, under which a person is deemed to be the beneficial owner of securities if such person has or shares voting power or investment power with respect to such securities, has the right to acquire beneficial ownership within 60 days, or acquires such securities with the purpose or effect of changing or influencing the

control of ENGlobal.

(2) Based on 26,695,154 shares issued and outstanding on March 31, 2012.

(3) Alliance 2000, Ltd. (“Alliance”) is a Texas limited partnership whose general partner is jointly owned by Mr. Coskey and his spouse.

(4) The foregoing information is based solely upon information contained in a Schedule 13G/A filed by NGP Energy Technology Partners II, L.P. (“NGP Energy Tech”), NGP ETP II, L.L.C. (“NGP GP”), Energy Technology Partners, L.L.C. (“ETP”), and Mr. Philip J. Deutch, with the SEC on February 10, 2012 with respect to holdings of common stock as of December 31, 2011. NGP GP is the general partner of NGP Energy Tech. ETP is the sole manager of NGP GP and Mr. Deutch is the sole member and manager of ETP. By virtue of those relationships, Mr. Deutch may direct the vote and disposition of the 2,435,635 shares of common stock held by NGP Energy Tech.

(5)The foregoing information is based solely upon information contained in a Schedule 13G/A filed by Prescott Group Capital Management, L.L.C. ("Prescott Capital"), Prescott Group Aggressive Small Cap, L.P. ("Prescott Small Cap"), Prescott Group Aggressive Small Cap II, L.P. ("Prescott Small Cap II" and together with Prescott Small Cap, the "Small Cap Funds") and Mr. Phil Frohlich, the principal of Prescott Capital, with the SEC on February 7, 2012 with respect to holdings of common stock as of December 31, 2011. Prescott Capital serves as the general partner of the Small Cap Funds and may direct the Small Cap Funds, the general partners of Prescott Group Aggressive Small Cap Master Fund, G.P. ("Prescott Master Fund"), to direct the vote and disposition of the 1,755,767 shares of common stock held by Prescott Master Fund. As the principal of Prescott Capital, Mr. Frohlich may direct the vote and disposition of the 1,755,767 shares of common stock held by Prescott Master Fund.

Section 16(a) Beneficial Ownership Reporting Compliance

Under U.S. securities laws, directors, executive officers and persons holding more than 10% of our common stock must report their initial ownership of our common stock and any changes in that ownership to the SEC. The SEC has designated specific due dates for such reports and ENGlobal must identify in this Proxy Statement those persons who did not file such reports when due.

Based solely upon a review of Forms 3 and 4 and any amendments thereto furnished to ENGlobal during our fiscal year ended December 31, 2011, and Forms 5 and any amendments thereto furnished to ENGlobal with respect to the same fiscal year, we believe that our directors, officers, and greater than 10% beneficial owners timely filed all required Section 16 reports, except that Messrs. Beall, Pagano, and Rennie were late filing Form 4s reporting a restricted stock grant made on November 7, 2011 and Mr. Bryant was late filing a Form 4 reporting a restricted stock grant made on November 7, 2011.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Board has adopted a policy requiring that all transactions between the Company and its officers, directors, principal shareholders and their affiliates be on terms no less favorable to the Company than could be obtained from unrelated third parties and that any such transactions be approved by a majority of the disinterested members of the Board. Pursuant to such policy, the Company's Audit Committee is responsible for the review and assessment of all related party transactions.

The Company leases approximately 1,400 square feet of residential space in Charlestown, Massachusetts from a limited liability company owned one-half by Michael H. Lee, the Company's former Executive Vice President of Field Solutions, and Michael G. Bryant, the Company's Executive Vice President of Field Solutions. Messrs. Lee and Bryant own less than 1% of the Company's common stock. Upon its review of comparable lease rates in the area, the Company's Audit Committee believed that this lease was at a commercially reasonable rental rate. ENGlobal assumed the lease when it acquired WRC Corporation, a Colorado corporation, in May 2006.

EXECUTIVE OFFICERS

Set forth below is a brief description of the business experience of each of our executive officers, except Mr. Pagano, whose biography is listed above.

Named Executive Officer:	John R. Beall
Position:	Chief Financial Officer and Treasurer
Age:	49

Present positions and offices with the Company, principal occupations during the past five years:

Mr. Beall has served as Chief Financial Officer of ENGlobal since November 2011 and served as interim Chief Financial Officer from June 2011 to November 2011. From April 2009 to May 2011, Mr. Beall was Chief Financial Officer at Quantapoint, Inc., a 3D imaging technology company, and from January 2007 to April 2009, he was Vice President and Manager at PNC Financial Services. He has held other senior financial positions in the banking and energy sectors, including J. Ray McDermott, S.A., a subsidiary of McDermott International, Inc. (NYSE:MDR) (formerly Offshore Pipelines, Inc. (OPI)), and

22

ConocoPhillips (NYSE: COP). Mr. Beall holds a Master of Business Administration in Finance from Southern Methodist University Cox School of Business and a Bachelor of Business Administration in Marketing from Baylor University.

Named Executive Officer: Michael G. Bryant
Position: Executive Vice President, Field Solutions
Age: 56
Present positions and offices with the Company, principal occupations during the past five years:

Mr. Bryant was appointed Executive Vice President of the Field Solutions segment in November 2011. He served as Senior Vice President of the segment from June 2010 until November 2011. Mr. Bryant joined an ENGlobal predecessor company in 1994 as a Senior Right of Way Agent and, from 1994 to 1998, served as a regional Business Director and later, Vice President. He is responsible for all Field Solutions activities, including the Land and Inspection divisions. Mr. Bryant is an active member of the International Right of Way Association (IRWA) and holds a Bachelor of Science degree and a Master of Education Degree from the University of Oklahoma.

Named Executive Officer: Cynthia L. Southall
Position: Senior Vice President, Business Development
Age: 54
Present positions and offices with the Company, principal occupations during the past five years:

Ms. Southall was appointed Senior Vice President – Business Development in November 2011 and served as interim Senior Vice President for Business Development from April 2011 to August 2011. Prior to joining ENGlobal in November 2007 as Vice President, Business Development – Automation, Ms. Southall served as Vice President of Operations at Andon Specialties, a manufacturers' representative and industrial distribution company, from July 2004 to November 2007 and from September 1991 to February 2003 as Account Manager at Honeywell, a technology and services company, where she focused on domestic and international sales to oil and gas customers and large EPC firms. Cindy is an active member of the Houston Gas Processors Association, the Instrument Society of America, and the Women's Energy Network.

Named Executive Officer: Timothy P. Rennie, P.E.
Position: Executive Vice President, Engineering & Construction
Age: 52
Present positions and offices with the Company, principal occupations during the past five years:

Mr. Rennie was appointed Executive Vice President of the Company's Engineering & Construction segment in January 2011. He joined ENGlobal in September 2010 as Senior Vice President, Gulf Coast Operations (Engineering), with responsibility for both the Engineering & Construction operations and the In-Plant business. Prior to joining ENGlobal, Mr. Rennie worked at WorleyParsons (ASX:WOR) from December 2005 to September 2010 as Vice President-Operations (Denver/Phoenix Region), Vice President-Strategy-U.S. & Latin America/Caribbean, and Manager-Global Execution Strategies. During his career, Mr. Rennie has also held management and engineering roles at M.W. Kellogg (nka KBR, Inc. (formerly Kellogg Brown & Root)), a construction and fabrication company, and Union Carbide Corporation, a chemical and polymers company. He graduated summa cum laude with an M.S. in Engineering Management from Marshall University and cum laude with a B.S. Mechanical Engineering from West Virginia University. He is a Registered Professional Engineer and a certified Project Management Professional. Mr. Rennie is an active member in the American Society of Mechanical Engineers, the Project Management Institute, the Construction Industry Institute Board of

Advisors, the Advisory Board of the SPAR International Conference on 3D Imaging Technology, and was the Contractor Keynote Speaker at the 2012 Process Industry Practices annual conference.

EXECUTIVE COMPENSATION

Compensation Discussion & Analysis

This Compensation Discussion & Analysis generally describes the development and current composition of our executive and director compensation programs and policies, and discusses the philosophy and principles underlying those policies and programs. It also gives greater context to the data presented in the tables and narratives that follow. This discussion should be read in conjunction with such tables, which follow this Compensation Discussion & Analysis.

What is our executive compensation program designed to reward?

Our executive compensation program is designed to reward individual performance and to achieve strategic business objectives that are aimed at growing our business and aligning the long-term interests of our executives and shareholders. Specifically, as our production and profits increase, so does executive compensation. Conversely, if production and profits decrease, executive compensation may be less generous.

What are the elements and objectives of our executive compensation program?

Our compensation program for executives consists of base salary, annual incentive awards, long-term incentive awards, and termination and change-in-control arrangements. Using these elements, the Compensation Committee has designed our compensation program to prudently use our resources while meeting the following objectives:

- attract and retain the talent that we believe is required to successfully execute our business strategy;
- align the interests of our executives with the interests of our shareholders;
- reinforce expectations of leadership and achievement, consistent with our values and our vision to be the best positioned, most trusted choice for engineering and professional services in the energy sector; and
- provide a strong incentive to our executives to achieve their potential and our goals and long-term success.

How are executive compensation amounts determined?

In determining target compensation levels for each executive, the Compensation Committee considers:

- total compensation amounts;
- market data;
- individual performance;
- corporate performance;
- compensation history; and
- internal equity.

None of these factors are weighted, but are considered together.

24

Total Compensation Amounts

In determining the individual compensation for ENGlobal's executives, the Compensation Committee considers the total compensation to be awarded to each executive (base salary, annual incentive awards, long-term incentive awards, and termination and change-in-control arrangements) and may exercise discretion in determining the portion allocated to the various components of total compensation. ENGlobal believes that the focus on total compensation provides the ability to align pay decisions with our short- and long-term business needs. This approach also allows for the flexibility needed to recognize differences in performance by providing differentiated pay. The Compensation Committee collects reliable and comparable market information obtained from publicly available filings of similar companies with the SEC. Market data is analyzed and valued in its totality, and no one element is considered in isolation.

Market Data

Market data is a key consideration for the Compensation Committee. The Compensation Committee considers this data for general market movement and trends and the positioning of our executives relative to the market. The Compensation Committee reviewed and considered market data for a peer group composed of six other engineering and construction companies (Furmanite Corporation, Michael Baker Corporation, Matrix Service Company, TetraTech, Inc., Willbros Group, and VSE Corporation). These companies were selected primarily because they are representative of the sector in which we operate with respect to each company's relative leadership position in our sector, its relative size as measured by market capitalization, the relative complexity of the business, and the CEO's role and responsibilities.

Market data for target total direct compensation (base salary, targeted annual incentive and expected value of long-term incentive awards) is developed to provide a broad market view. Each executive's position relative to the market data is reflective of his experience (both with us and with other companies) and the other factors described below.

Individual Performance

The Compensation Committee also considers individual performance, including achievement of individualized goals, current and potential impact on corporate performance, reputation, skills, experience, criticality and demonstration of our values as important factors. Our values are to:

- act with absolute integrity;
- provide superb service to our customers;
- collaborate with, support and respect our employees;
- embrace the entrepreneurial spirit;
- encourage a passion for excellence in everything we do; and
- operate in a safe and responsible manner.

The format used for our executives' annual performance evaluations is the same as for all employees (except our Chief Executive Officer). See "What is the role of our executives in the compensation process?"

Corporate Performance

Significant portions of our annual incentive awards and long-term incentive awards are tied to corporate and operational results, which must be measured to determine the level of payout. See “Why do we choose to pay each element?” below.

Compensation Consultant

In fiscal 2012, the Compensation Committee did not retain a compensation consultant. The Compensation Committee determined that its collection of reliable and comparable market data obtained from publicly available SEC filings of similar companies was sufficient information to determine appropriate compensation for its executives, including general market movement and trends and the positioning of our executives relative to the market.

Compensation History

In determining an executive’s compensation, the Compensation Committee considers the base salary and prior years’ incentive payouts. The Compensation Committee also considers each executive’s equity holdings, including the date of any grants, the types of awards (stock options or cash), the vesting provisions, the expiration dates, the exercise prices, and the number of shares granted. The Compensation Committee reviews these historical awards in order to allocate an appropriate portion of executive compensation to retention value.

Internal Equity

The Compensation Committee believes that the success of a company depends to a large extent on honest and ethical leadership and teamwork. Consequently, compensation among senior executives is roughly equivalent. However, some differences in levels of compensation among our executives exist because of differences in their roles and responsibilities and in the factors discussed above. The Compensation Committee does not use formulas in determining base compensation amounts, but is mindful of internal equity and the impact of perceived fairness related to its decisions. Bonuses for senior executives are based on a formula tied to increases in earnings per share.

How does each element and our decisions regarding that element fit into our compensation program’s objectives and affect other elements?

The Compensation Committee believes that in order to achieve our compensation program’s objectives, a significant portion of executive compensation should be composed of variable, at risk elements, with the majority of these elements being based on alignment with our shareholders and achievement of our long-term success. Base salaries attract and retain the talent we need to lead and grow our business. The Compensation Committee strives for a balanced and effective mix of elements, which are not weighted in any particular manner. We have no policies or formulas for allocating among different forms of pay.

Why do we choose to pay each element?

Base Salary

Base salary is paid in cash commensurate with the responsibilities of each individual’s position, subject to adjustment by the Compensation Committee based on its annual review of the factors discussed under "How are executive compensation amounts determined?" above. The Compensation Committee believes the base salaries provide a competitive level of fixed compensation based on the individual's experience and performance as well as the position's market value. See "Summary Compensation Table" for base salary amounts.

We did not make any adjustments to base salaries for our executive officers in 2011 other than as a result of a promotion which such executive received. In connection with a promotion in May 2011, Mr. Bryant entered into an employment agreement with us and received a salary increase from approximately $160,000 to approximately $190,000 per annum. In connection with his promotion in January 2011, Mr. Rennie received a salary increase from approximately $240,000 to approximately $250,000 per annum. In order to align her salary with those of other executives of the Company, Ms. Southall received a salary increase from $143,000 to $175,000 in March 2011. In connection with their promotions in November 2011, Mr. Bryant and Ms. Southall received salary increases from approximately $190,000 to approximately $215,010 per annum (in the case of Mr. Bryant) and from approximately $175,000 to approximately $190,000 per annum (in the case of Ms. Southall).

Short-term Incentive Plan

ENGlobal adopted a Short-term Incentive Plan as of January 1, 2011 (the "STI Plan") for its executive management team, general managers, vice presidents, and certain other key corporate and business development employees. The purpose of the STI Plan is to encourage superior performance on key corporate and employee metrics that are critical to our business. Under the STI Plan, bonus awards are based on achievement of metrics established by the Compensation Committee or our Chief Executive Officer.

We believe it is important to reward exceptional performance that leads to achievement of financial, Company and individual goals. The STI Plan measures personal Key Performance Indicators ("KPI's") to ensure a direct link between our reward system and Company performance and shareholder return. KPI's must align with annual financial targets and strategic goals and are determined individually. The actual incentive earned is determined by annual performance against KPI's.

The STI Plan is "self-funding" and financial KPI's are structured to encourage stretch, but achievable, financial growth and Net Operating Income performance growth. Overall Company financial performance must be at least 90% of budget for any incentives to be paid. Unless otherwise determined by the Compensation Committee, the maximum aggregate annual bonuses payable under the STI Plan cannot exceed 15% of consolidated pre-tax net income after consideration of the bonus expense.

Each participant's Target Incentive ("Target") is based on specific company KPI's established during the annual strategic planning and budgeting process. Targets are comprised of Overall Company Financial Performance, Financial Performance in Area of Responsibility and Individual Performance Goals and a KPI Score, weighted appropriately to impact results. KPI's include factors such as financial performance of group under management, human capital development and leadership, strategic planning, customer service / retention activities and operational improvements. Given the critical nature of Health, Safety and Environmental (HSE), a HSE KPI is included and is based on our measures of recordable incidents, lost time due to injuries and environmental harm.

The pool available under the STI Plan is determined during the annual budgeting and forecasting process. The Chief Executive Officer and Chief Financial Officer will review performance against budget and forecasts at the end of the first quarter. The Chief Executive Officer will determine whether any matters identified require an amendment to the financial measures adopted for the STI Plan and may award discretionary incentives in exceptional circumstances when financial targets have not been met, subject to the approval of the Compensation Committee.

The Company was not profitable during 2011; therefore it did not make any payments under the STI Plan to the individuals named in the Summary Compensation Table below.

Long-Term Incentive Awards

Although use of long-term incentive awards is limited, such equity-based awards are available for issuance when appropriate to align our executives' interests with those of our shareholders. These awards are designed to retain our executives and to provide them continued motivation to achieve our long-term success. In selecting recipients for equity grants and in determining the size of such grants, we consider various factors, including:

- our achievements, financial performance and financial ratios, including revenues, operating income, and earnings per share;
- Company and individual performance, both on an absolute basis in terms of growth over prior year performance, and against pre-established performance goals;
- compensation paid by companies of comparable size in businesses similar to our business;
- the executive's level of responsibility; and
- the executive's contributions in support of our strategies.

For accounting reasons, and to limit dilution to our shareholders, the Compensation Committee has moved toward granting restricted stock awards, as a replacement for stock option grants.

The structure of our long-term incentive awards reflects the Compensation Committee's view that the purpose of the executive's equity compensation is to strengthen alignment with shareholders, provide incentives tied to our performance and serve as a retention vehicle. Time-based equity compensation can be retentive and creates shareholder alignment because their value of the award increases as our stock price increases. The weighting of the long-term incentive award vehicles is reflective of the Compensation Committee's goal to have a balanced and effective mix of cash and equity elements, which is determined on an individualized basis.

In June 2011 pursuant to his employment agreement, Mr. Pagano was granted 22,866 shares of restricted stock which vest over a four-year period, with 25% vesting each year beginning December 31, 2011. In addition, in November 2011, Messrs. Beall, Bryant and Rennie, Ms. Southall and Ms. Leedy were granted executive retention awards of 3,497, 3,497, 8,741, 5,245 and 5,245 shares of restricted stock, respectively, with 25% vesting each year beginning December 31, 2011.

Employment Agreements; Termination and Change-in-Control Arrangements

As of December 31, 2011, Messrs. Coskey, Pagano and Bryant and Ms. Leedy were each a party to a written employment agreement (the "Employment Agreements") with ENGlobal. Ms. Leedy's employment with the Company terminated on March 2, 2012. The Employment Agreements provide for an annual base salary, subject to discretionary increases by the Board, and other compensation in the form of cash bonuses, incentive compensation, stock options, stock appreciation rights, and restricted stock awards. Additionally, the executives receive health, life, and other insurance benefits in accordance with the terms of the Company's benefit plans, and the Company provides management level support services and reimbursement for specified business expenses.

The Employment Agreements provide for severance payments and benefits in the case of termination of employment. If employment ends because of death, the Company will pay any accrued but unpaid salary, additional compensation, and other benefits earned up to that date. In the case of a physical or mental disability that prevents the executive from performing his services under the Employment Agreement for a period of three months, in the case of Mr. Bryant and Ms. Leedy, or six months, in the case of Mr. Coskey and Mr. Pagano, the Company may terminate the executive's employment. If the Company terminates an executive's employment in such cases of disability, the Employment Agreements provide that the Company will continue to pay the executive his full salary and benefits for the six months following the date of termination. At the Company's option, severance payments consisting of 50% of the monthly amount of the executive's base salary, and in the case of Mr. Pagano, 100% of the monthly amount of his base salary, and full benefits may be extended for an additional six-month period.

If the Company terminates an executive's employment for "cause," as defined in the Employment Agreements, the Company will pay any accrued but unpaid salary, additional compensation, and other benefits earned up to the effective date of termination. If the Company terminates an executive's employment without "cause," the Employment Agreement provides that the Company will continue to pay the executive his full salary and benefits for the six months following the date of termination (the "Initial Severance Period"). At the Company's option, severance payments consisting of 50% of the monthly amount of the executive's base salary, and in the case of Mr. Pagano, 100% of the monthly amount of his base salary, and full benefits may be extended for an additional six-month period following the Initial Severance Period. Pursuant to his Employment Agreement, if Mr. Pagano is terminated without cause on or before the 365th day after a Company change of control event, as defined in the then current equity incentive plan, then the Initial Severance Period, during which the Company shall continue to pay Mr. Pagano his salary and benefits, will be increased from six months to one year. See "Executive Compensation Tables—Severance."

The Employment Agreements include a covenant not to compete following termination of employment for a period of up to one year as well as confidentiality provisions as are customary in nature and scope, for such agreements.

The terms of the Employment Agreements were set through the course of arms-length negotiations with the executives. As part of these negotiations, the Compensation Committee analyzed the terms of the same or similar arrangements for comparable executives employed by some of the companies in our peer group. The Compensation Committee used this approach in setting the amounts payable and the triggering events under the Employment Agreements. The Employment Agreements' termination of employment provisions were entered into in order to address competitive concerns by providing the executives with a fixed amount of compensation that would offset the potential risk of foregoing other opportunities. At the time of entering into the Employment Agreements, the Compensation Committee considered ENGlobal's aggregate potential obligations in the context of retaining the executive and his expected compensation.

Executive Perquisites

In addition to the compensation and benefits programs described above, executive officers receive certain limited perquisites and other benefits. These include Company-paid benefits for medical, dental, life, short-term disability, and long-term disability insurances, personal leave benefits, reimbursement for an annual physical exam, and Company matching contributions to the ENGlobal Corporation 401(k) Plan, as amended. These perquisites and other benefits are provided to assure competitiveness and provide an additional retention incentive for these named executives. The costs associated with providing these additional benefits are reflected in the "All Other Compensation" column of the Summary Compensation Table.

Other Compensation

From time to time, we make available to employees and executives certain other fringe benefits. We may provide club memberships, tickets to sporting or cultural events, tickets to community events, etc. To the extent that such items are taxable to the individual, they are considered to be part of the individual's compensation package. The costs associated with providing these additional benefits are reflected in the "All Other Compensation" column of the Summary Compensation Table.

Clawback Policy – Recovery and Adjustments to Cash and Equity Awards

The only Clawback Policy adopted by the Company is the one now mandated by Section 304 of the Sarbanes-Oxley Act, which is applicable only to financial restatements resulting from misconduct and is limited to incentive-based compensation awarded in the year following the first improper filing. Section 954 of the Dodd-Frank Wall Street Reform and Customer Protection Act of 2010 mandates adoption of a clawback policy with regard to incentive-based compensation, but federal regulators have not yet implemented certain requirements for these rules to take effect. We continue to track the progress of these rules, and will adopt, as applicable, a clawback policy subsequent to finalization of the regulations.

What is the role of our executives in the compensation process?

Our Chief Executive Officer has access to the internal and external compensation information described above, including each executive's annual performance review. A performance evaluation is completed for each named executive officer other than the Chief Executive Officer and Chairman. This evaluation covers performance against their specific operational goals and objectives as established for each during the first quarter of each fiscal year, as well as their performance against key Company management behaviors and values.

Based on this evaluation, our Chief Executive Officer makes recommendations, which are developed and presented to the Compensation Committee for review and consideration for approval. The Compensation Committee is comprised of all of the non-employee directors; each of whom is able to provide his views on performance and compensation. The Compensation Committee has not historically engaged or retained any outside advisors or consultants with respect to executive or director compensation.

What are our equity and security ownership requirements?

We encourage, but do not require, stock ownership by executives through the use of equity awards. We strive to ensure management's interests are aligned with shareholders' interests to support long-term value creation through the Plan, which is designed to support long-term value creation. To that end, we grant equity awards to vest over multi-year periods of service to encourage our Named Executive Officers to focus on long-term performance.

When are awards granted and base salaries approved?

Each year, the Compensation Committee approves our executives' base salaries, payout of annual incentive awards for the prior year, and annual and long-term incentive awards for the current year at its first regular quarterly meeting (generally in March or April). Any awards for newly hired executives are granted at the next regularly scheduled Committee meeting. Offers to executive candidates are reviewed with the Compensation Committee prior to being made. Any equity awards included in an offer are subject to the Compensation Committee's approval.

Our executives do not have any role in establishing the timing of grants or vesting of equity awards. We do not have any program, plan or practice to time grants of equity or equity-based awards in coordination with the release of material non-public information and we do not set grant dates to new executives in coordination with the release of such information. We have not timed, and do not intend to time, our release of material non-public information for the purpose of affecting the value of executive compensation.

Does the accounting and tax treatment of a particular form of compensation impact the form and design of awards?

The Compensation Committee considers tax, tax deductibility and accounting treatment of various compensation alternatives. However, these are not typically driving factors. The Compensation Committee may approve non-deductible compensation arrangements if it believes they are in the best interests of the Company and its shareholders taking into account several factors, including our ability to utilize the deduction based on projected taxable income.

Compensation Committee Report

The information contained in this Compensation Committee Report shall not be deemed to be "soliciting material" or to be "filed" or incorporated by reference in future filings with the SEC, or to be subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

The Compensation Committee oversees the compensation plans, policies and programs of ENGlobal on behalf of the Board. In performing its oversight function, the Compensation Committee reviewed and discussed with management the Compensation Discussion & Analysis prior to its inclusion in this Proxy Statement. Based on these reviews and discussions, the Compensation Committee recommended to the Board, and the Board approved, that the Compensation Discussion & Analysis be included in this Proxy Statement.

The undersigned members of the Compensation Committee have submitted this Report to the Board.

Compensation Committee of the Board of Directors,

David C. Roussel, Chairman
David W. Gent
Randall B. Hale

April 26, 2012

Executive Compensation Tables

Summary Compensation Table

The following table sets forth information regarding compensation earned during the last three fiscal years by our Chief Executive Officer, Chief Financial Officer, former Chief Financial Officer and four next most highly compensated executive officers (the "Named Executive Officers").

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards(1) ($)	All Other Compensation (2) ($)	Total ($)
Edward L. Pagano ~ President & Chief	2011	308,999	--	56,086	7,035	372,120
Executive Officer (3)	2010	209,116	25,000	74,781	8,463	317,360
John R. Beall ~ Chief Financial Officer & Treasurer (4)	2011	140,518	--	7,479	68	148,065
Michael G. Bryant ~ Executive Vice President, Field Solutions (5)	2011	183,465	--	7,479	1,057	192,001
Timothy P. Rennie ~ Executive Vice President,	2011	248,224	--	18,695	1,469	268,388
Engineering & Construction (6)	2010	72,805	10,000	18,695	--	101,500
Cynthia L. Southall ~ Senior Vice President, Business Development (7)	2011	171,911	--	11,218	101	183,230
Robert W. Raiford ~ Former Chief Financial	2011	144,846	--	--	49,445(8)	144,846
Officer (8)	2010	269,000	--	--	10,400	279,400
	2009	260,000	--	--	21,859	281,859
Rochelle D. Leedy ~ Former Executive Vice	2011	208,072	--	11,218	6,893	226,183
President, Automation (9)	2010	200,000	--	18,695	7,569	226,264
	2009	--	--	--	--	--

(1) This column shows the grant date fair value of equity awards computed in accordance with stock-based compensation accounting rules (FASB ASC Topic 718). Values for awards subject to performance conditions are computed based upon the probable outcome of the performance condition as of the grant date. For a description of certain assumptions made in the valuation of stock awards, see Note 13 to the Company's audited consolidated financial statements, included in the Company's Form 10-K for the fiscal year ended December 31, 2011, as filed with the SEC on April 12, 2012.

(2) Consists of benefits relating to the Executive Benefits Policy, including medical, dental, life, short-term disability, and long-term disability insurances. Also includes 401(k) matching contributions, personal leave benefits and reimbursements for the executive's annual physical exam.

(3) Mr. Pagano joined ENGlobal on May 3, 2010. His Employment Agreement, as described in Compensation Discussion & Analysis, provides for a base salary of $300,000, an annual bonus with a target of 60% of his base salary, a $25,000 sign-on bonus, and certain equity incentives. Mr. Pagano did not receive an annual bonus payment in 2011 or 2010. See “Compensation Discussion & Analysis – Short-term Incentive Plan” above.

(4) Mr. Beall was appointed Chief Financial Officer of ENGlobal on November 1, 2011 and served as interim Chief Financial Officer from June 2011 to November 2011. Mr. Beall did not receive an annual bonus payment in 2011. See “Compensation Discussion & Analysis – Short-term Incentive Plan” above.

(5) Mr. Bryant was appointed Executive Vice President ~ Field Solutions on November 1, 2011. His Employment Agreement, as described in Compensation Discussion & Analysis, provides for a base salary of $160,000, an annual bonus in the discretion of the Board. Mr. Bryant did not receive an annual bonus payment in 2010 or 2011. In connection with his promotion in November 2011, his base salary was increased to $215,000. See “Compensation Discussion & Analysis – Short-term Incentive Plan” above.

(6) Mr. Rennie became the Executive Vice President of ENGlobal’s Engineering & Construction business segment on January 1, 2011. He received a $10,000 sign-on bonus when he joined ENGlobal in September 2010 as the Senior Vice President, Gulf Coast Operations. Mr. Rennie did not receive an annual bonus payment in 2010 and 2011. See “Compensation Discussion & Analysis – Short-term Incentive Plan” above.

(7) In connection with a restructuring of our executive management team, Ms. Southall became the Senior Vice President – Business Development on November 1, 2011. Ms. Southall did not receive an annual bonus payment in 2011. See “Compensation Discussion & Analysis – Short-term Incentive Plan” above.

(8) Mr. Raiford resigned in July 2011. Subsequently, Mr. Raiford received $45,850 of accrued amounts owed to him for paid time-off and holidays during 2011 and he was not paid a severance upon his termination. Also includes $2,978 received pursuant to the Executive Benefits Policy and $618 for his phone allowance.

32

(9)Ms. Leedy's employment terminated in March 2012 and she was not paid a severance upon her termination.

Grants of Plan-Based Awards

The following table sets forth information regarding each grant of an equity-based award during 2011 to the Named Executive Officers.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (1)	Exercise or Base Price of Awards ($/Sh)	Grant Date Fair Value of Stock Awards (2)
Mr. Pagano	June 16, 2011	22,866	$3.28	$56,086
Mr. Beall	November 7, 2011	3,497	$2.86	$7,479
Mr. Bryant	November 7, 2011	3,497	$2.86	$7,479
Ms. Southall	November 7, 2011	5,245	$2.86	$11,218
Mr. Rennie	November 7, 2011	8,741	$2.86	$18,695
Mr. Raiford	--	--	--	--
Ms. Leedy (3)	November 7, 2011	5,245	$2.86	$11,218

(1) The shares were granted under the Plan, and vest over a four-year period with 25% vesting each year beginning December 31, 2011.
(2) Reflects the full grant date fair value of the equity awards computed in accordance with applicable accounting guidance. For a description of certain assumptions made in the valuation of stock awards, see Note 13 to the Company's audited consolidated financial statements, included in the Company's Form 10-K for the fiscal year ended December 31, 2011, filed with the SEC on April 12, 2012 and see "Summary Compensation Table" above.
(3) Ms. Leedy's employment terminated in March 2012. Includes 3,934 unvested shares that were forfeited upon her termination.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information as of December 31, 2011, regarding outstanding equity awards held by the Named Executive Officers. On December 30, 2011, the closing price on NASDAQ for the Company's common stock was $2.11 per share.

	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#)							
Name	Exercisable	Un-exercisable	Option Exercise Price	Option Expiration Date	Number of Shares That Have Not Vested	Market Value of Shares of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested	Equity Incentive Plan Awards: Market Value of Unearned Shares That Have Not Vested
Mr. Pagano	--	--	--	--	20,161(1)	$42,542	--	--

					17,148(2)	$36,187		
Mr. Beall	--	--	--	--	2,623(3)	$5,535	--	--
Mr. Bryant					2,623(3)	$5,535	--	--
Mr. Rennie	--	--	--	--	5,252(4)	$11,082	--	--
					6,555(3)	$13,831		
Ms. Southall	--	--	--	--	3,933(3)	$8,299	--	--
Mr. Raiford	--	--	--	--	--	--	--	--
Ms. Leedy	75,000	--	$2.50	April 2, 2012(5)	5,252(5)	$11,082	--	--
					3,933(5)	$8,299		

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(1) The shares were granted under the Plan in June 2010, and vest over a four-year period with 25% vesting each year beginning December 31, 2010.
(2) The shares were granted under the Plan in June 2011, and vest over a four-year period with 25% vesting each year beginning December 31, 2011.
(3) The shares were granted under the Plan in November 2011, and vest over a four-year period with 25% vesting each year beginning December 31, 2011.
(4) The shares were granted under the Plan in September 2010, and vest over a four-year period with 25% vesting each year beginning December 31, 2010.
(5) In connection with her termination in March 2012, Ms. Leedy forfeited all unexercised options and unvested shares of restricted stock.

Option Exercises and Stock Vested

The following table sets forth information regarding the number of shares of the Company's common stock acquired upon vesting of restricted stock grants by the Named Executive Officers during 2011. On December 30, 2011, the closing price on NASDAQ for the Company's common stock was $2.11 per share.

Name	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Mr. Pagano	15,797	$33,332
Mr. Beall	874	$1,844
Ms. Bryant	874	$1,844
Mr. Rennie	4,811	$10,151
Ms. Southall	1,311	$2,766
Mr. Raiford	--	--
Ms. Leedy	3,937	$8,307

Severance

The following table sets forth benefits payable to the Named Executive Officers upon the occurrence of a change in control of the Company, or the termination of employment without cause, death or permanent disability of the Named Executive Officers under their employment agreements. Information is not included for Mr. Raiford and Ms. Leedy because, as noted above, effective July 2011 and March 2012, respectively, each was no longer employed by us and neither received any severance in connection with their departure. The information in the table is calculated as of December 31, 2011. On December 30, 2011, the closing price on NASDAQ for the Company's common stock was $2.11 per share.

Name	Termination without Cause	Voluntary Termination	Death	Disability	Change in Control
Mr. Pagano					
Compensation:					
Severance	$309,000(1)	--	--	$309,000(1)	$463,500(2)
Equity Awards	--	--	--	--	$78,722(3)
Benefits and Perquisites:					
Health/Dental/Medical	$3,009	--	--	$3,009	$6,198
Mr. Beall					
Compensation:					

Severance	--	--	--	--	--
Equity Awards (Unvested and Accelerated)	--	--	--	--	$5,535(4)
Benefits and Perquisites:					
Health/Dental/Medical	--	--	--	-	--

34

Name	Termination without Cause	Voluntary Termination	Death	Disability	Change in Control
Mr. Bryant					
Compensation:					
Severance	$161,450(5)	--	--	$161,450(5)	--
Equity Awards (Unvested and Accelerated)	--	--	--	--	$5,535(6)
Benefits and Perquisites:					
Health/Dental/Medical	$899	--	--	$899	--
Mr. Rennie					
Compensation:					
Severance	--	--	--	--	--
Equity Awards (Unvested and Accelerated)	--	--	--	--	$24,913(7)
Benefits and Perquisites:					
Health/Dental/Medical	--	--	--	--	--
Ms. Southall					
Compensation:					
Severance	--	--	--	--	--
Equity Awards (Unvested and Accelerated)	--	--	--	--	$8,301(8)
Benefits and Perquisites:					
Health/Dental/Medical	--	--	--	--	--

(1)Pursuant to his Employment Agreement, if Mr. Pagano's employment is terminated for any reason other than (i) for "cause," as defined in his Employment Agreement, (ii) voluntary resignation, or (iii) his death, then for a period of six months following the date of termination of employment the Company shall continue to pay Mr. Pagano his full monthly salary. At the Company's option, severance payments consisting of Mr. Pagano's full monthly salary may be extended for an additional six-month period following the initial six month severance period. Amount in table assumes base salary at December 31, 2011 and that the Company elects to extend the initial severance period for an additional six months.

(2)Pursuant to his Employment Agreement, if Mr. Pagano is terminated without cause on or before the 365th day of a Company change of control event, as defined in the then current equity incentive plan, then the initial severance period is extended from six months to twelve months, during which the Company shall continue to pay Mr. Pagano his full salary. The Company may additionally elect to extend the initial severance period for an additional six months, during which the Company shall continue to pay Mr. Pagano his full salary. Amount in table assumes base salary at December 31, 2011 and that the Company elects to extend the initial severance period for an additional six months.

(3)Includes 37,309 unvested shares of restricted stock granted to Mr. Pagano.

(4)Includes 2,623 unvested shares of restricted stock granted to Mr. Beall.

(5)Pursuant to his Employment Agreement, if Mr. Bryant's employment is terminated for any reason other than (i) for "cause," as defined in his Employment Agreement, (ii) voluntary resignation, or (iii) his death, then for a period of six months following the date of termination of employment the Company shall continue to pay Mr. Bryant his full monthly salary. At the Company's option, severance payments consisting of 50% of Mr. Bryant's monthly salary may be extended for an additional six-month period following the initial six month severance period. Amount in table assumes base salary at December 31, 2011 and that the Company elects to extend the initial severance period for an additional six months.

(6)Includes 2,623 unvested shares of restricted stock granted to Mr. Bryant.
(7)Includes 11,807 unvested shares of restricted stock granted to Mr. Rennie.
(8)Includes 3,933 unvested shares of restricted stock granted to Ms. Southall.

Review of and Conclusion Regarding All Components of Executive Compensation

Based on our performance during the past several years, and in light of our executives' efforts in directing the Company, the Compensation Committee and the Board have determined that the compensation paid to Mr. Pagano, as well as compensation paid to our other Named Executive Officers, serves the best interests of our shareholders and continues to emphasize programs that the Compensation Committee and the Board believe positively affect shareholder value.

DIRECTOR COMPENSATION

As of December 31, 2011, the following table discloses cash and equity awards and other compensation earned, paid or awarded, as the case may be, to each of the Company's non-employee directors and Mr. Coskey during the last fiscal year.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	All Other Compensation ($)	Total
Mr. Coskey	--	--	$247,567(3)	$247,567
Mr. Hale	$36,000	$59,824	--	$95,824
Mr. Gent	$32,000	$59,824	--	$91,824
Mr. Roussel	$32,000	$59,824	--	$91,824

(1) Amount paid in cash to non-employee directors for director compensation earned for their Board service in 2011-2012.
(2) Represents 24,390 vested shares of restricted stock at a strike price of $3.28 granted to each director on June 16, 2011. Stock vests 25% quarterly on each of September 30, 2011, December 31, 2011, March 31, 2012, and June 30, 2012.
(3) Includes $237,000 in salary and $5,530 in benefits received under our Executive Benefits Policy under footnote 2 to the Summary Compensation Table above paid in connection with services rendered by Mr. Coskey during 2011.

The principal objectives of our director compensation programs are to: (i) compensate for time spent on the Company's behalf, (ii) ensure long-term retention, and (iii) align the compensation programs with long-term value to the Company's shareholders. We attempt to accomplish these objectives in an economical manner through a combination of reasonable director retainer fees and equity incentive grants to the directors.

Retainer Fees

Our non-employee directors, Messrs. Gent, Hale and Roussel, receive a retainer of $32,000 per year. Non-employee directors are also eligible for reimbursement of travel and other miscellaneous expenses associated with attendance at Board and Committee meetings. The chairman of the Audit Committee, Mr. Hale, receives an additional $4,000 per year.

The Board considers the director compensation programs to be in conformity with industry standards and to be reasonable by comparison to directors' compensation at the comparable companies that we used for our evaluation of executive compensation.

Restricted Stock Grants

Under the Plan, non-employee directors are eligible to receive non-statutory equity grants. In 2011, in recognition of the services provided by its Board, each non-employee director received restricted shares of the Company's common stock, valued at $80,000 based on the fair market value of the shares on the date of grant. The shares vest ratably and quarterly, beginning September 30, 2011. The Company anticipates that in June 2012, non-employee directors will each receive restricted shares of the Company's common stock valued at approximately $80,000 on the date of grant, with a quarterly vesting schedule beginning September 30, 2012, as compensation for their service to the Company during 2012-2013. We anticipate that the shares will be granted on June 14, 2012, will vest quarterly and be fully vested on June 30, 2013. Any unvested shares will be forfeited as of the date the non-employee director ceases to qualify as an independent director.

AUDIT MATTERS

Report of the Audit Committee

The information contained in this Report of the Audit Committee shall not be deemed to be “soliciting material” or to be “filed” or incorporated by reference in future filings with the SEC, or to be subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

In accordance with its written charter, the Audit Committee assists the Board in, among other matters, oversight of our financial reporting process, including the effectiveness of our internal accounting and financial controls and procedures, and controls over our accounting, auditing, and financial reporting practices. A copy of the Audit Committee Charter is available on our website at www.englobal.com.

The Board has determined that all three members of the Audit Committee are “independent” based upon the standards adopted by the Board, which incorporate the independence requirements under applicable laws, rules and regulations.

Management is responsible for the financial reporting process, the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, our system of internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. Our independent registered public accounting firm is responsible for auditing the financial statements. The Audit Committee’s responsibility is to monitor and review these processes and procedures. The members of the Audit Committee are not professionally engaged in the practice of accounting or auditing and we are not professionals in those fields. The Audit Committee relies, without independent verification, on the information provided to us and on the representations made by management that the financial statements have been prepared with integrity and objectivity and on the representations of management and the opinion of the independent registered public accounting firm that such financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

During fiscal year 2011, the Audit Committee held seven meetings. The Audit Committee’s meetings were conducted so as to encourage communication among the members of the Audit Committee, management, and our independent registered public accounting firm, Hein & Associates, LLP. Among other things, the Audit Committee discussed with our internal and independent auditors the overall scope and plans for ENGlobal’s audits. The Audit Committee met separately with the independent registered public accounting firm, with and without management, to discuss the results of their examinations and their observations and recommendations regarding our internal controls. The Audit Committee also discussed with our independent registered public accounting firm all matters required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee reviewed and discussed our audited consolidated financial statements as of and for the year ended December 31, 2011 with management and our independent registered public accounting firm. Management’s discussions with the Audit Committee included a review of critical accounting policies.

The Audit Committee obtained from the independent auditors a formal written statement describing all relationships between us and our registered public accounting firm that might bear on the independence of the independent registered public accounting firm consistent with the applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm communications with audit committees concerning independence The Audit Committee discussed with the independent registered public accounting firm any relationships that may have an impact on the auditors' objectivity and independence and satisfied itself as to the auditors' independence. The Audit Committee has reviewed and approved the amount of fees paid to Hein & Associates for audit and non-audit services. The Audit Committee concluded that the provision of services by Hein & Associates is compatible with the maintenance of Hein & Associates' independence.

At five of its meetings during 2011, the Audit Committee met with members of senior management and the independent registered public accounting firm to review the certifications provided by the Chief Executive Officer and Chief Financial Officer under the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC and the overall certification process. At these meetings, Company officers reviewed each of the Sarbanes-Oxley certification requirements concerning internal control over financial reporting and any fraud, whether or not material, involving management or other employees with a significant role in internal control over financial reporting.

Based on the above-mentioned review and discussions with management, and the independent registered public accounting firm, and subject to the limitations on our role and responsibilities described above and in the Audit Committee Charter, the Audit Committee recommended to the Board of Directors that ENGlobal's audited consolidated financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, for filing with the SEC.

Audit Committee of the Board of Directors,

Randall B. Hale, Chairman
David W. Gent, P.E.
David C. Roussel

April 26, 2012

Principal Auditor Fees

The following table shows the fees paid or accrued by ENGlobal for the audit and other services provided by Hein & Associates for fiscal year 2011 and 2010.

	2011	2010
Audit Fees	$281,000	$253,300
Audit-Related Fees	--	--
Tax Fees	--	--
All Other Fees	--	--
Total	$281,000	$253,300

As defined by the SEC, (i) "audit fees" are fees for professional services rendered by the Company's independent registered public accounting firm for the audit of the Company's annual financial statements and review of financial statements included in the Company's Quarterly Reports on Form 10-Q, or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years; (ii) "audit-related fees" are fees for assurance and related services by the Company's independent registered public accounting firm that are reasonably related to the performance of the audit or review of the company's financial statements and are not

38

reported under “audit fees;” (iii) “tax fees” are fees for professional services rendered by the Company’s independent registered public accounting firm for tax compliance, tax advice, and tax planning; and (iv) ”all other fees” are fees for products and services provided by the Company’s independent registered public accounting firm, other than the services reported under “audit fees,” “audit-related fees,” and “tax fees.”

Under applicable SEC rules, except for the ability to designate a portion of this responsibility as described below, the full Audit Committee is required to pre-approve the audit and non-audit services performed by the independent registered public accounting firm in order to ensure that they do not impair the auditors’ independence from ENGlobal. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee and if it does, the decisions of that member must be presented to the full Audit Committee at its next scheduled meeting. The SEC’s rules specify the types of non-audit services that an independent auditor may not provide to its audit client and establish the Audit Committee’s responsibility for administration of the engagement of the independent registered public accounting firm.

Consistent with the SEC’s rules, the Audit Committee Charter requires that the Audit Committee review and pre-approve all audit services and permitted non-audit services provided by the independent registered public accounting firm to ENGlobal or any of its subsidiaries, except that the Audit Committee Chairman has the right to approve up to $25,000 of services in any year. During 2011, all fees were pre-approved by the Audit Committee.

OTHER MATTERS

To the best of the knowledge, information and belief of the directors, there are no other matters which are to be acted upon at the Annual Meeting. If such matters arise, the form of proxy provides that discretionary authority is conferred on the designated persons in the enclosed form of proxy to vote with respect to such matters.

The Company has received no notice of any other items to be submitted for consideration at the Annual Meeting and, except for reports of operations and activities by management, which are for informational purposes only and require no approval or disapproval, and consideration of the minutes of the preceding annual meeting for approval, which may involve technical corrections to the text where actions taken were incorrectly recorded, but which require no action of approval or disapproval of the subject matter, management does not know of or contemplate any other business that will be presented for action by the shareholders at the Annual Meeting. If any further business is properly presented at the Annual Meeting, the persons named as proxies will act in their discretion on behalf of the shareholders they represent.

SHAREHOLDER PROPOSALS FOR 2013

The 2013 Annual Meeting of Shareholders is expected to be held in June 2013. The Company must receive by January 4, 2013 any shareholder proposal intended to be presented at the next annual meeting of shareholders for inclusion in the Company’s proxy materials. Proposals must comply with the proxy rules relating to shareholder proposals, including Rule 14a-8 under the Securities Exchange Act of 1934, as amended, in order to be included in our proxy materials. Proposals should be delivered to ENGlobal Corporation, 654 N. Sam Houston Parkway E., Suite 400, Houston, Texas 77060-5914, Attention: Corporate Secretary, prior to the specified deadline.

SEC rules and regulations provide that if the date of the Company’s 2013 Annual Meeting is advanced or delayed more than 30 days from the date of the 2012 Annual Meeting, shareholder proposals intended to be included in the proxy materials for the 2013 Annual Meeting must be received by the Company within a reasonable time before the Company begins to print and mail the proxy materials for the 2013 Annual Meeting. The Company will promptly disclose such a change in a Current Report on Form 8-K, upon determination by the Company that the date of the 2013 Annual Meeting will be advanced or delayed by more than 30 days from the date of the 2012 Annual Meeting. If you intend to present a proposal at our 2013 Annual Meeting, but you do not intend to have it included in our 2013 Proxy Statement, your proposal must be delivered to the Secretary of ENGlobal no later than March 20, 2013.

ANNUAL REPORT TO SHAREHOLDERS

We are furnishing our annual report to our shareholders over the Internet. You may read, print and download our annual report at http://www.proxyvote.com. You may request the annual report be sent to you by mail or email by following the instructions on the Notice of Internet Availability mailed to you on May 4, 2012. The annual report may also be read, downloaded and printed at www.englobal.com.

APPROVAL OF THE BOARD OF DIRECTORS

The contents of this Proxy Statement have been approved by the Board of Directors, and the Board of Directors has authorized the mailing of this Proxy Statement to the shareholders of the Company.

By Order of the Board of Directors,

Natalie S. Hairston
Chief Governance Officer and Secretary

Houston, Texas
April 30, 2012

AMENDMENT TO
ENGLOBAL CORPORATION
2009 EQUITY INCENTIVE PLAN

Whereas, the Board of Directors of ENGlobal Corporation has authorized the amendment of the ENGlobal Corporation 2009 Equity Incentive Plan (the "Plan") to increase the number of Shares (as defined in the Plan) that may be issued under the Plan to 980,000 subject to shareholder approval.

Now, therefore, the Plan is hereby amended effective as of June 14, 2012 subject to shareholder approval as follows:

Section 3(a) shall be amended in its entirety as follows:

"(a) Stock Subject to the Plan. Subject to the provisions of Section 15 of the Plan, the maximum aggregate number of Shares that may be issued pursuant to all Awards under the Plan (including Incentive Stock Options) is 980,000 Shares. Shares shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash. Upon payment in Shares pursuant to the exercise of an Award, the number of Shares available for issuance under the Plan shall be reduced only by the number of Shares actually issued in such payment. If a Participant pays the exercise price (or purchase price, if applicable) of an Award through the tender of Shares, or if Shares are tendered or withheld to satisfy any Company withholding obligations, the number of Shares so tendered or withheld shall again be available for issuance pursuant to future Awards under the Plan."

PROXY CARD
PROXY SOLICITED BY THE BOARD OF DIRECTORS
FOR ANNUAL MEETING OF STOCKHOLDERS

The undersigned hereby appoints Edward L. Pagano and John R. Beall, either of them, jointly and severally, with power of substitution, to represent and to vote as designated all shares of common stock which the undersigned would be entitled to vote at the Annual Meeting of Stockholders of ENGlobal Corporation, to be held at The Coronado Club, 919 Milam Street, Suite 500, Houston, Texas 77002 on Thursday, June 14, 2012 at 10:00 a.m., local time, or any adjournment thereof.

1. Election of directors.

1.	William A. Coskey, P.E.	4.	Edward L. Pagano
2.	David W. Gent, P.E.	5.	David C. Roussel
3.	Randall B. Hale		

[ ] FOR ALL [ ] WITHHOLD ALL [ ] FOR ALL EXCEPT

To withhold authority to vote for any individual nominee(s), mark “For All Except” and write the number(s) of the nominee(s) on the line below.

____

2. Approval of an amendment to the ENGlobal 2009 Equity Incentive Plan to increase the number of shares of common stock reserved for issuance thereunder from 480,000 shares to 980,000 shares.

[ ] FOR [ ] AGAINST [ ] ABSTAIN

3. Ratification of the appointment of Hein & Associates LLP as the independent auditors of ENGlobal for fiscal year 2012.

[ ] FOR [ ] AGAINST [ ] ABSTAIN

[ ] If you plan to attend the Annual Meeting, please check here.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED BY THE UNDERSIGNED STOCKHOLDER. UNLESS OTHERWISE SPECIFIED, THE SHARES WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES TO ENGLOBAL'S BOARD OF DIRECTORS, FOR THE APPROVAL OF AN AMENDMENT TO THE ENGLOBAL 2009 EQUITY INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK RESERVED FOR ISSUANCE THEREUNDER FROM 480,000 SHARES TO 980,000 SHARES AND FOR THE RATIFICATION OF THE APPOINTMENT OF HEIN & ASSOCIATES LLP AS THE INDEPENDENT AUDITORS OF ENGLOBAL FOR FISCAL YEAR 2012, AND IN THE PROXY HOLDER'S DISCRETION, UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

The undersigned acknowledges receipt of the Notice of Annual Meeting of Stockholders and the accompanying Proxy Statement.

Please sign exactly as name appears hereon and date. If the shares are jointly held, each holder should sign. When signing as an attorney, executor, administrator, trustee, or as an officer signing for a corporation, please give full title under signature.

____ Date: ________________

____ Date: ________________

Signatures of Stockholder(s)

(PLEASE DATE, SIGN AND RETURN THIS PROXY PROMPTLY USING THE ENCLOSED ENVELOPE)