

RCM TECHNOLOGIES INC  
Form 10-Q  
November 08, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 29, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-10245

RCM TECHNOLOGIES, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Nevada	95--1480559
(State or other	(I.R.S. Employer
Jurisdiction of	Identification No.)
Incorporation)	

2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613	
(Address of Principal Executive Offices)	(Zip Code)

(856) 356-4500  
(Registrant's Telephone Number, Including Area Code)

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act). (Check one):

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of the Registrant's class of common stock, as of the latest practicable date.

Common Stock, \$0.05 par value, 12,031,274 shares outstanding as of November 6, 2012.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

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## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 September 29, 2012 and December 31, 2011  
 (In thousands, except share and per share amounts)

	September 29, 2012 (Unaudited)	December 31, 2011
Current assets:		
Cash and cash equivalents	\$30,212	\$28,417
Accounts receivable, net	37,949	39,031
Transit accounts receivable	3,333	3,029
Prepaid expenses and other current assets	1,969	2,087
Deferred income tax assets, domestic	686	665
Total current assets	74,149	73,229
 Property and equipment, net	 1,949	 2,535
Other assets:		
Deposits	307	199
Goodwill	9,545	7,319
Intangible assets, net	370	210
Deferred income tax assets, domestic	2,422	2,686
Total other assets	12,644	10,414
Total assets	\$88,742	\$86,178
 Current liabilities:		
Accounts payable and accrued expenses	\$5,386	\$5,107
Transit accounts payable	3,911	3,030
Accrued payroll and related costs	7,730	5,831
Income taxes payable	458	226
Deferred income tax liability, foreign	87	85
Contingent consideration	228	11
Total current liabilities	17,800	14,290
Contingent consideration, long term portion	897	227
Total liabilities	18,697	14,517
 Stockholders' equity:		
Preferred stock, \$1.00 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.05 par value; 40,000,000 shares authorized; 13,448,158 shares issued and 12,041,531 shares outstanding at	672	666

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	September 29, 2012 and 13,335,008 shares issued and 12,743,222 shares outstanding at December 31, 2011	
Additional paid-in capital	108,699	108,203
Accumulated other comprehensive income	1,416	1,306
Accumulated deficit	(33,604)	(35,801)
Treasury stock (1,406,627 shares at September 29, 2012 and 591,786 at December 31, 2011, at cost)	(7,138)	(2,713)
Total stockholders' equity	70,045	71,661
Total liabilities and stockholders' equity	\$88,742	\$86,178

The accompanying notes are an integral part of these financial statements.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
Thirteen and Thirty-Nine Week Periods Ended September 29, 2012 and October 1, 2011  
(Unaudited)  
(In thousands, except per share amounts)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September	October	September	October
	29, 2012	1, 2011	29, 2012	1, 2011
Revenues	\$34,839	\$33,559	\$108,798	\$108,779
Cost of services	25,164	24,461	79,182	78,171
Gross profit	9,675	9,098	29,616	30,608
Operating costs and expenses				
Selling, general and administrative	8,153	8,077	24,766	24,919
Depreciation and amortization	415	279	953	867
	8,568	8,356	25,719	25,786
Operating income	1,107	742	3,897	4,822
Other (expense) income				
Interest expense and other, net	(11)	(8)	(32)	(24)
Reduction in contingent consideration	-	-	43	-
Loss (gain) on foreign currency transactions	(1)	9	7	29
	(12)	1	18	5
Income before income taxes	1,095	743	3,915	4,827
Income tax expense	461	19	1,718	1,686
Net income	\$634	\$724	\$2,197	\$3,141
Basic net earnings per share	\$0.05	\$0.06	\$0.18	\$0.24
Diluted net earnings per share	\$0.05	\$0.06	\$0.17	\$0.24

The accompanying notes are an integral part of these financial statements.



RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
Thirty-Nine Week Period Ended September 29, 2012  
(Unaudited)  
(In thousands, except share amounts)

	Common Stock Issued		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount	Capital	Income	Deficit	Shares	Amount	Total
Balance, December 31, 2011	13,335,008	\$666	\$108,203	\$1,306	(\$35,801)	591,786	(\$2,713)	\$71,661
Issuance of stock under employee stock purchase plan	29,205	2	126					128
Translation adjustment				110				110
Issuance of stock upon exercise of stock options	83,945	4	310					314
Stock based compensation expense			60					60
Common stock repurchase						814,841	(4,425)	(4,425)
Net income					2,197			2,197
Balance, September 29, 2012	13,448,158	\$672	\$108,699	\$1,416	(\$33,604)	1,406,627	(\$7,138)	\$70,045

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Thirty-Nine Week Periods Ended September 29, 2012 and October 1, 2011  
(Unaudited)  
(In thousands)

	September 29, 2012	October 1, 2011
Net income	\$2,197	\$3,141
Foreign currency translation adjustment	110	(63)
Comprehensive income	\$2,307	\$3,078

The accompanying notes are an integral part of these financial statements.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Thirty-Nine Week Periods Ended September 29, 2012 and October 1, 2011  
(Unaudited)  
(In thousands)

	September 29, 2012	October 1, 2011
Cash flows from operating activities:		
Net income	\$2,197	\$3,141
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	953	867
Loss on disposal of fixed assets	-	1
Reduction of contingent consideration	(43)	-
Stock-based compensation expense	60	69
Provision for allowance for doubtful accounts	353	65
Deferred income tax expense	430	401
Changes in assets and liabilities:		
Accounts receivable	891	2,575
Transit accounts receivable	(304)	(5,817)
Prepaid expenses and other current assets	170	(509)
Accounts payable and accrued expenses	(227)	(722)
Transit accounts payable	881	8,193
Accrued payroll and related costs	1,854	1,514
Income taxes payable	233	65
Total adjustments	5,251	6,702
Net cash provided by operating activities	7,448	9,843
Cash flows from investing activities:		
Property and equipment acquired	(250)	(235)
Increase in deposits	(109)	(18)
Cash paid for acquisition	(1,292)	-
Payments of contingent consideration	-	(91)
Net cash used in investing activities	(1,651)	(344)
Cash flows from financing activities:		
Sale of stock for employee stock purchase plan	128	168
Exercise of stock options	314	94
Common stock repurchases	(4,425)	(1,838)
Net cash used in financing activities	(3,983)	(1,576)
Effect of exchange rate changes on cash and cash equivalents	(19)	(49)
Increase in cash and cash equivalents	1,795	7,874
Cash and cash equivalents at beginning of period	28,417	24,704
Cash and cash equivalents at end of period	\$30,212	\$32,578

Supplemental cash flow information:

Cash paid for:

Interest	\$35	\$37
Income taxes	\$1,616	\$1,456

Non-cash investing activities:

Contingent consideration recorded, not paid	\$930	\$ -
Above market value lease assumed in acquisition	\$469	\$ -
Fixed assets acquired in acquisition	\$28	\$ -

The accompanying notes are an integral part of these financial statements.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (In thousands, except share and per share amounts, unless otherwise indicated)

1. Basis of Presentation

The accompanying consolidated interim financial statements of RCM Technologies, Inc. and subsidiaries (“RCM” or the “Company”) are unaudited. The year-end consolidated balance sheet was derived from audited statements but does not include all disclosures required by accounting principles generally accepted in the United States. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the Company’s consolidated financial statements and the notes thereto for the year ended December 31, 2011 included in the Company’s Annual Report Form 10-K for such period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

The consolidated financial statements for the unaudited interim periods presented include all adjustments (consisting only of normal, recurring adjustments except for the reduction of the contingent consideration pertaining to the PSG acquisition) necessary for a fair presentation of financial position, results of operations and cash flows for such interim periods.

Results for the thirteen and thirty-nine week periods ended September 29, 2012 are not necessarily indicative of results that may be expected for the full year.

2. Fiscal Year

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal year ended December 31, 2011 was a 52-week reporting year. The third fiscal quarters of 2012 and 2011 ended on the following dates, respectively:

Period Ended	Weeks in Quarter	Weeks in Year to Date
September 29, 2012	Thirteen	Thirty-Nine
October 1, 2011	Thirteen	Thirty-Nine

3. Use of Estimates and Uncertainties

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The Company uses estimates to calculate an allowance for doubtful accounts on its accounts receivables, adequacy of reserves, the tax rate applied and the valuation of certain assets and liability accounts. These estimates can be significant to the operating results and financial position of the Company.

The Company has risk participation arrangements with respect to workers compensation and health care insurance. The amounts included in the Company's costs related to this risk participation are estimated and can vary based on changes in assumptions, the Company's claims experience or the providers included in the associated insurance programs.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except share and per share amounts, unless otherwise indicated)

3. Use of Estimates and Uncertainties (Continued)

The Company can be affected by a variety of factors including uncertainty relating to the performance of the general economy, competition, demand for the Company's services, adverse litigation and claims and the hiring, training and retention of key employees.

Fair Value of Financial Instruments

The Company's carrying value of financial instruments, consisting primarily of accounts receivable, accounts payable and accrued expenses, approximates fair value due to their liquidity or their short-term nature. The Company does not have derivative products in place to manage risks related to foreign currency fluctuations for its foreign operations or for interest rate changes.

4. Accounts Receivable

The Company's accounts receivable are comprised as follows:

	September 29, 2012	December 31, 2011
Billed	\$24,392	\$28,460
Accrued and unbilled	3,821	3,143
Work-in-progress	11,270	8,883
Allowance for doubtful accounts and sales discounts	(1,534)	(1,455)
Accounts receivable, net	\$37,949	\$39,031

Unbilled receivables primarily represent revenues earned whereby those services are ready to be billed as of the balance sheet ending date. Work-in-process primarily represents revenues earned under contracts which the Company contractually invoices at future dates.

5. Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line method at rates calculated to provide for retirement of assets at the end of their estimated useful lives. The annual rates are 20% for computer hardware and software as well as furniture and office equipment. Leasehold improvements are amortized over the shorter of the estimated life of the asset or the lease term.

Property and equipment are comprised of the following:

	September 29, 2012	December 31, 2011
Equipment and furniture	\$2,301	\$2,767
Computers and systems	5,087	5,641

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Leasehold improvements	870	1,039
	8,258	9,447
Less: accumulated depreciation and amortization	6,309	6,912
Property and equipment, net	\$1,949	\$2,535

The Company periodically writes off fully depreciated assets. The Company wrote off fully depreciated assets of \$1,466 and \$494 for the thirty-nine week periods ended September 29, 2012 and October 1, 2011, respectively.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (In thousands, except share and per share amounts, unless otherwise indicated)

6. Acquisitions

General

The Company has acquired numerous companies throughout its history and those acquisitions have generally included significant future contingent consideration. The Company gives no assurance that it will make acquisitions in the future and if they do make acquisitions gives no assurance that such acquisitions will be successful.

Future Contingent Payments

As of September 29, 2012, the Company had two active acquisition agreements: 1) the Company acquired certain assets of Project Solutions Group, Inc. ("PSG") in 2009; and 2) effective July 1, 2012 the Company acquired certain assets of BGA, LLC ("BGA") as more fully described below. The Company cannot estimate future contingent payments with any certainty. However, the Company estimates future contingent payments as follows:

Period Ending	PSG	BGA	Total
December 29, 2012	\$11	\$ -	\$11
December 28, 2013	184	228	412
January 3, 2015	-	253	253
January 2, 2016	-	269	269
December 31, 2016	-	307	307
Estimated future contingent payments	\$1,057	\$1,252	\$195

Actual future contingent payments may materially exceed the estimates above. In the case of future payments to PSG the Company believes that it is highly unlikely that any future payments, if any, will materially exceed the estimates above. Future contingent payments to be made to BGA, if any, shall in no event exceed \$3.0 million cumulatively.

During the thirty-nine week period ended September 29, 2012, the Company reduced its liability for contingent consideration by \$43, which relates to the PSG acquisition and is reflected in other income. The Company paid no consideration during the thirty-nine week period ended September 29, 2012 and paid \$91 during the comparable prior year period.

BGA, LLC

Effective July 1, 2012, the Company purchased the operating assets of BGA. BGA provides comprehensive multidiscipline engineering solutions across numerous industry sectors including Power Generation (both Nuclear and Fossil), Energy Delivery, Energy Management, Architecture, Commercial Building and Manufacturing. The Company believes that the BGA assembled workforce consists of highly trained and experienced engineers that will greatly assist RCM in executing future growth in revenues. The BGA acquisition will operate as part of the Company's Engineering segment. The BGA purchase consideration consisted of the following:

Cash	\$1,292
Lease in excess of market, net present value	468

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Contingent	930
consideration, net	
present value	
Total consideration	\$2,690

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except share and per share amounts, unless otherwise indicated)

6. Acquisitions (Continued)

The facility lease payments in excess of market value are expected to be incurred over a four year period following the effective date of the BGA acquisition. The acquired above market lease is recorded at its fair value based on the present value, using a discount rate that reflects the risks associated with the acquired lease, equal to the difference between the contractual amounts to be paid under the lease agreement and an estimate of the fair market lease rate at the acquisition date. The shareholders of BGA are eligible to receive post-closing contingent consideration upon BGA exceeding certain base levels of operating income, potentially earned over four years and not to exceed a total of \$3.0 million cumulatively. The amount recorded for the contingent consideration represents the acquisition date fair value of expected consideration to be paid based on BGA's forecasted operating income during the four year period. Expected consideration was valued based on different possible scenarios for projected operating income. Each case was assigned a probability which was used to calculate an estimate of the forecasted future payments. Then a discount rate was applied to these forecasted future payments to determine the acquisition date fair value to be recorded. At the time of the acquisition, the book and tax basis of assets and liabilities acquired are the same, except for the above market value lease which gave rise to a deferred tax asset as shown below.

The acquisition has been accounted for under the purchase method of accounting. The total preliminary estimated purchase price has been allocated as follows:

Fixed assets	\$28
Restricted covenants	70
Customer relationships	180
Deferred tax asset	187
Goodwill	2,225
Total consideration	\$2,690

The primary item that generated goodwill was the acquisition of a highly skilled and trained assembled workforce of engineers that the Company anticipates will allow it to win contract awards from its current and future customer base that the Company would not otherwise win. The preliminary purchase price allocation is based on management's estimate of acquired tangible and intangible assets and will be adjusted based on the final valuation which is anticipated to be completed during Q4.

Pro Forma Results of Operations

The following (unaudited) results of operations have been prepared assuming the BGA acquisition had occurred as of the beginning of the periods presented. Those results are not necessarily indicative of results of future operations or of results that would have occurred had the acquisition occurred as of the beginning of the periods presented.

Thirteen Week  
Periods Ended

Thirty-Nine Week  
Periods Ended

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	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Revenues	\$34,839	\$34,860	\$111,401	\$112,511
Operating income	\$1,107	\$709	\$4,032	\$4,883
Diluted earnings per share	\$0.05	\$0.05	\$0.18	\$0.24

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except share and per share amounts, unless otherwise indicated)

7. Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company is required to assess the carrying value of its reporting units that contain goodwill at least on an annual basis. The Company has the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than the carrying value, the quantitative impairment test is required. The Company formally assesses these qualitative factors, and if necessary, conducts its annual goodwill impairment test as of the last day of the Company's fiscal November each year or if indicators of impairment exist. The Company has determined that the qualitative factors that exist do not suggest that an impairment of goodwill exists.

The changes in the carrying amount of goodwill for the thirty-nine week period ended September 29, 2012 are as follows:

	Information Technology	Engineering	Specialty Health Care	Total
Balance as of December 31, 2011	\$5,516	\$100	\$1,703	\$7,319
Goodwill acquired	-	1,296	-	1,296
Contingent consideration recorded	-	930	-	930
Balance as of September 29, 2012	\$5,516	\$2,326	\$1,703	\$9,545

8. Intangible Assets

The Company evaluates long-lived assets and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the Company determines that it is probable that undiscounted future cash flows will not be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. Assets to be disposed of by sale, if any, are reported at the lower of the carrying amount or fair value less cost to sell.

The following table reflects the components of intangible assets, excluding goodwill:

	Information Technology	Engineering	Total
Balance as of December 31, 2011	\$210	\$ -	\$210
	-	250	250

Intangible assets acquired during  
the thirty-nine  
week period ended September 29,  
2012

Amortization of intangibles during  
the

thirty-nine week period ended	)	)	)
September 29, 2012	(78	(12	(90

Balance as of September 29, 2012	\$132	\$238	\$370
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The Company periodically writes off fully amortized intangible assets. The Company wrote off fully amortized intangibles of \$171 and \$0 for the thirty-nine week periods ended September 29, 2012 and October 1, 2011, respectively.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except share and per share amounts, unless otherwise indicated)

9. Line of Credit

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, amended and restated effective February 20, 2009, which provides for a \$15 million revolving credit facility and includes a sub-limit of \$5 million for letters of credit (the "Revolving Credit Facility"). The Revolving Credit Facility has been amended several times, most recently on December 24, 2011 when the maturity date was extended to August 31, 2016. Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, or (ii) the agent bank's prime rate. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as restrictions on the Company's ability to pay dividends.

There were no borrowings during the thirty-nine week periods ended September 29, 2012 and October 1, 2011. At September 29, 2012 and October 1, 2011, there were letters of credit outstanding for \$0.9 million. At September 29, 2012, the Company had availability for additional borrowings under the Revolving Credit Facility of \$14.1 million.

10. Per Share Data

Both basic and diluted earnings per share for all periods are calculated based on the reported earnings in the Company's consolidated statements of income.

The number of shares of common stock used to calculate basic and diluted earnings per share for the thirty-nine week periods ended September 29, 2012 and October 1, 2011 was determined as follows:

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	September	October 1,	September	October 1,
	29,	2011	29,	2011
	2012		2012	
Basic weighted average shares outstanding	12,057,478	12,994,565	12,422,558	13,046,216
Dilutive effect of outstanding stock options	194,731	147,305	205,140	179,241
Weighted average dilutive shares outstanding	12,252,209	13,141,870	12,627,698	13,225,457

There were 62,500 and 184,264 anti-dilutive weighted shares not included in the calculation of common stock equivalents for the thirteen week periods ended September 29, 2012 and October 1, 2011, respectively. There were 63,233 and 79,984 anti-dilutive weighted shares not included in the calculation of common stock equivalents for the thirty-nine week periods ended September 29, 2012 and October 1, 2011, respectively.





RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except share and per share amounts, unless otherwise indicated)

10. Per Share Data (Continued)

Unissued shares of common stock were reserved for the following purposes:

	September 29, 2012	December 31, 2011
Exercise of options outstanding	811,344	916,594
Future grants of options or shares	419,100	437,600
Shares reserved for employee stock purchase plan	247,752	276,957
<b>Total</b>	<b>1,478,196</b>	<b>1,631,151</b>

11. Share Based Compensation

At September 29, 2012, the Company had four share-based employee compensation plans. The Company measures the fair value of stock options, if and when granted, based on the Black-Scholes method and using the closing market price of the Company's common stock on the date of grant. Grants vest over periods ranging from one to three years and expire within 10 years of issuance. Share-based compensation expense related to awards is amortized in accordance with applicable vesting periods using the straight-line method. Share-based compensation expense of \$6 and \$19 was recognized for the thirteen week periods ended September 29, 2012 and October 1, 2011, respectively. Share-based compensation expense of \$60 and \$69 was recognized for the thirty-nine week periods ended September 29, 2012 and October 1, 2011, respectively.

There were no options granted during the thirteen week period ended September 29, 2012 and October 1, 2011, respectively. There were 20,000 options granted during the thirty-nine week period ended September 29, 2012 and no options granted during the thirty-nine week period ended October 1, 2011. Activity regarding outstanding options for the thirty-nine week period ended September 29, 2012 is as follows:

	Shares	All Stock Options Outstanding Weighted Average Exercise Price
Options outstanding as of December 31, 2011	916,594	\$4.24
Options granted	20,000	\$5.40
Options exercised	(96,700)	\$3.98
Options forfeited/cancelled	(28,550)	\$3.88
<b>Options outstanding as of September 29, 2012</b>	<b>811,344</b>	<b>\$4.32</b>
Options outstanding price range at September 29, 2012	\$1.73 - \$9.81	

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Options exercisable as of September 29, 2012	753,400	\$4.38
Intrinsic value of outstanding stock options as of September 29, 2012	\$1,134	
Intrinsic value of stock options exercised for the thirty-nine week period ended September 29, 2012	\$146	

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except share and per share amounts, unless otherwise indicated)

11. Share Based Compensation (Continued)

Incentive Stock Option Plans

1994 Non-employee Directors Stock Option Plan (the 1994 Plan)

The 1994 Plan, approved by the Company's stockholders in May 1994 and amended in April 1998, provided for the issuance of up to 110,000 shares of the Company's common stock to non-employee directors of the Company through February 19, 2004, at which time the 1994 Plan expired. Options granted under the 1994 Plan were granted at fair market value at the date of grant, and the exercise of options is contingent upon service as a director for a period of one year. Options granted under the 1994 Plan terminate when an optionee ceases to be a director of the Company. As of September 29, 2012, options to purchase 10,000 shares of common stock granted under the 1994 Plan were outstanding.

1996 Executive Stock Option Plan (the 1996 Plan)

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provided for the issuance of up to 1,250,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006, at which time the 1996 Plan expired. Options were generally granted at fair market value at the date of grant. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of September 29, 2012, options to purchase 491,500 shares of common stock granted under the 1996 Plan were outstanding.

2000 Employee Stock Incentive Plan (the 2000 Plan)

The 2000 Plan, approved by the Company's stockholders in April 2001, provided for the issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors may award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determines the vesting period at the time of grant. As of September 29, 2012, options to purchase 193,444 shares of common stock granted under the 2000 Plan were outstanding.

The 1994 Plan, 1996 Plan and 2000 Plan are expired and therefore no shares are available for grant thereunder.

2007 Omnibus Equity Compensation Plan (the 2007 Plan)

The 2007 Plan, approved by the Company's stockholders in June 2007, provides for the issuance of up to 700,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. No more than 350,000 shares of common stock in the aggregate may be issued pursuant to grants of stock awards, stock units, performance shares and other stock-based awards. No more than 300,000 shares of common stock with respect to awards may be granted to any individual during any fiscal year. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of September 29, 2012, 419,100 shares of common stock were available for future grants under the 2007 Plan, and options to purchase 116,400 shares of common stock granted under the 2007 Plan were outstanding.

As of September 29, 2012, the Company had approximately \$37 of total unrecognized compensation cost related to non-vested awards granted under the Company's various share-based plans, which the Company expects to recognize over approximately a three-year period. These amounts do not include the cost of any additional options that may be granted in future periods or reflect any potential changes in the Company's forfeiture rate.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
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11. Share Based Compensation (Continued)

Employee Stock Purchase Plan

The Company implemented the 2001 Employee Stock Purchase Plan with stockholder approval, effective January 1, 2001. Such Plan was subsequently amended, pursuant to stockholder approval where required, effective June 18, 2009 and September 16, 2009 (the 2001 Employee Stock Purchase Plan, as so amended, the "Purchase Plan"). Under the Purchase Plan, employees meeting certain specific employment qualifications are eligible to participate and can purchase shares of common stock semi-annually through payroll deductions at the lower of 85% of the fair market value of the stock at the commencement or end of the offering period. The purchase plan permits eligible employees to purchase shares of common stock through payroll deductions for up to 10% of qualified compensation. The Company has two offering periods in the Purchase Plan coinciding with the Company's first two fiscal quarters and the last two fiscal quarters. Actual shares are issued on the first day of the subsequent offering period for the prior offering period payroll deductions. The number of shares issued at the beginning of the current period (as of July 1, 2012) was 15,304. As of September 29, 2012, there were 247,752 shares available for issuance under the Purchase Plan.

12. Treasury Stock Transactions

Our Board of Directors instituted a share repurchase program in February 2010, which authorized the repurchase of up to \$7.5 million of the Company's outstanding shares of our common stock at prevailing market prices, from time to time over the subsequent 12 months. In February 2011, the share repurchase program was extended through February 2013. During the thirteen week period ended September 29, 2012, the Company repurchased 64,827 shares at a total cost of approximately \$0.4 million, or an average price of \$5.48 per share. During the thirty-nine week period ended September 29, 2012, the Company repurchased 814,841 shares at a total cost of approximately \$4.4 million, or an average price of \$5.43 per share. Since the inception of its share repurchase program and through September 29, 2012, the Company has purchased 1,406,627 shares at a total cost of approximately \$7.1 million, or an average price of \$5.07.

13. New Accounting Standards

There have been no recent accounting pronouncements or changes in accounting pronouncements during the thirty-nine week period ended September 29, 2012, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, that are of material significance, or have potential material significance, to the Company.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
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14. Segment Information

The Company follows “Disclosures about Segments of an Enterprise and Related Information,” which establishes standards for companies to report information about operating segments, geographic areas and major customers. The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1 to the Company’s Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2011.)

Segment operating income includes selling, general and administrative expenses directly attributable to that segment as well as charges for allocating corporate costs to each of the operating segments. The following tables reflect the results of the segments consistent with the Company’s management system:

Thirteen Week Period Ended	Information		Specialty		
September 29, 2012	Technology	Engineering	Health Care	Corporate	Total
Revenue	\$12,373	\$17,142	\$5,324	\$ -	\$34,839
Cost of services	8,739	12,845	3,580	-	25,164
Selling, general and administrative	3,323	3,088	1,742	-	8,153
Depreciation and amortization	89	298	28	-	415
Operating income (loss)	\$222	\$911	(\$26)	\$ -	\$1,107
Total assets	\$13,944	\$30,148	\$9,088	\$35,562	\$88,742
Capital expenditures	\$9	\$107	\$ -	\$23	\$139

Thirteen Week Period Ended	Information		Specialty		
October 1, 2011	Technology	Engineering	Health Care	Corporate	Total
Revenue	\$12,537	\$15,609	\$5,413	\$ -	\$33,559
Cost of services	9,238	11,689	3,534	-	24,461
Selling, general and administrative	3,437	2,764	1,876	-	8,077
	109	139	31	-	279

Depreciation and  
amortization

Operating income (loss)	(\$247)	\$1,017	(\$28)	\$ -	\$742
Total assets	\$14,508	\$32,366	\$7,096	\$39,960	\$93,930
Capital expenditures	\$ -	\$77	\$ -	\$ -	\$77

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except share and per share amounts, unless otherwise indicated)

14.	Segment Information (Continued)				
Thirty-Nine Week Period Ended September 29, 2012	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	\$39,520	\$48,529	\$20,749	\$ -	\$108,798
Cost of services	27,945	37,112	14,125	-	79,182
Selling, general and administrative	10,564	8,659	5,543	-	24,766
Depreciation and amortization	282	575	96	-	953
Operating income	\$729	\$2,183	\$985	\$ -	\$3,897
Total assets	\$13,944	\$30,148	\$9,088	\$35,562	\$88,742
Capital expenditures	\$57	\$170	\$ -	\$23	\$250
Thirty-Nine Week Period Ended October 1, 2011	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	\$41,224	\$47,614	\$19,941	\$ -	\$108,779
Cost of services	29,815	35,141	13,215	-	78,171
Selling, general and administrative	10,987	8,504	5,428	-	24,919
Depreciation and amortization	336	428	103	-	867
Operating income	\$86	\$3,541	\$1,195	\$ -	\$4,822
Total assets	\$14,508	\$32,366	\$7,096	\$39,960	\$93,930
Capital expenditures	\$2	\$158	\$ -	\$75	\$235



RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
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14. Segment Information (Continued)

The Company derives a majority of its revenue from offices in the United States. Revenues reported for each operating segment are all from external customers. The Company is domiciled in the United States and its segments operate in the United States, Canada and Puerto Rico. The Company closed its Ireland sales office in December 2011. Revenues by geographic area for the thirteen and thirty-nine week periods ended September 29, 2012 and October 1, 2011 are as follows:

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Revenues				
U. S.	\$28,118	\$27,400	\$90,871	\$88,947
Canada	5,308	5,602	14,504	18,217
Puerto Rico	1,413	557	3,423	1,593
Ireland	-	-	-	22
	\$34,839	\$33,559	\$108,798	\$108,779

Total assets by geographic area as of the reported periods are as follows:

	September 29, 2012	October 1, 2011
Total assets		
U. S.	\$74,629	\$78,038
Canada	12,770	15,013
P u e r t o Rico	1,343	621
Ireland	-	258
	\$88,742	\$93,930

15. Income Taxes

The projected fiscal 2012 effective income tax rate as of September 29, 2012 is approximately 42.9% and 26.8% in the United States and Canada, respectively, and has yielded a projected weighted average effective income tax rate of approximately 43.9%. The relative income or loss generated in each jurisdiction impacts the overall effective income tax rate of the company. The projected loss from operations in the Canadian subsidiary caused the proportional consolidated effective tax to exceed traditional effective income tax rates.



RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
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16. Contingencies

From time to time, the Company is a defendant or plaintiff in various legal actions which arise in the normal course of business. As such, the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of losses and possible recoveries. The Company may not be covered by insurance as it pertains to some or all of these matters. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. Once established, a provision may change in the future due to new developments or changes in circumstances, and could increase or decrease the Company's earnings in the period that the changes are made. Included in the Company's accounts payable and accrued expenses is a provision for losses from legal matters aggregating approximately \$0.2 million and \$0.3 million as of September 29, 2012 and December 31, 2011, respectively. Asserted claims in these matters seek approximately \$13.4 million in damages as of September 29, 2012.

The Company is also subject to other pending legal proceedings and claims that arise from time to time in the ordinary course of its business, which may not be covered by insurance.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

Private Securities Litigation Reform Act Safe Harbor Statement

Certain statements included herein and in other reports and public filings made by RCM Technologies, Inc. ("RCM" or the "Company") are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements regarding the adoption by businesses of new technology solutions; the use by businesses of outsourced solutions, such as those offered by the Company, in connection with such adoption; the Company's business initiatives and growth strategies; and the outcome of litigation (at both the trial and appellate levels) involving the Company. Readers are cautioned that such forward-looking statements, as well as others made by the Company, which may be identified by words such as "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "believe," and similar expressions, are only predictions and are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially from such statements. Such risks and uncertainties include, without limitation: (i) unemployment and general economic conditions affecting the provision of information technology and engineering services and solutions and the placement of temporary staffing personnel; (ii) the Company's ability to continue to attract, train and retain personnel qualified to meet the requirements of its clients; (iii) the Company's ability to identify appropriate acquisition candidates, complete such acquisitions and successfully integrate acquired businesses; (iv) uncertainties regarding pro forma financial information and the underlying assumptions relating to acquisitions and acquired businesses; (v) uncertainties regarding amounts of deferred consideration and earnout payments to become payable to former shareholders of acquired businesses; (vi) adverse effects on the market price of the Company's common stock due to the potential resale into the market of significant amounts of common stock; (vii) the adverse effect a potential decrease in the trading price of the Company's common stock would have upon the Company's ability to acquire businesses through the issuance of its securities; (viii) the Company's ability to obtain financing on satisfactory terms; (ix) the reliance of the Company upon the continued service of its executive officers; (x) the Company's ability to remain competitive in the markets that it serves; (xi) the Company's ability to maintain its unemployment insurance premiums and workers compensation premiums; (xii) the risk of claims being made against the Company associated with providing temporary staffing services; (xiii) the Company's ability to manage significant amounts of information and periodically expand and upgrade its information processing capabilities; (xiv) the Company's ability to remain in compliance with federal and state wage and hour laws and regulations; (xv) uncertainties in predictions as to the future need for the Company's services; (xvi) uncertainties relating to the allocation of costs and expenses to each of the Company's operating segments; (xvii) the costs of conducting and the outcome of litigation involving the Company, and the applicability of insurance coverage with respect to any such litigation; (xviii) obligations relating to indemnities and similar agreements entered into in connection with the Company's business activities; and (xix) other economic, competitive and governmental factors affecting the Company's operations, markets, products and services. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publicly release the results of any revision of these forward-looking statements to reflect these trends or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Overview

RCM participates in a market that is cyclical in nature and sensitive to economic changes. As a result, the impact of economic changes on revenues and operations can be substantial, resulting in significant volatility in the Company's financial performance.

The Company experienced a marginal increase in revenues during the thirty-nine week period ended September 29, 2012 as compared to the comparable prior year period. The revenue increase was primarily attributable to the BGA acquisition offset by decreased revenues in the Company's Canadian Engineering division and the residual impact from subpar performance in the Company's Information Technology segment in 2011, as further discussed in the Segment Discussion below. While the Company believes general economic conditions and overall market conditions for its Information Technology and Specialty Health Care segments have improved slightly from their recessionary lows, the Company is cautious regarding expectations for 2013 as the Company believes that any general economic or market recovery may continue to be slow and/or tenuous.

The Company believes it has developed and assembled an attractive portfolio of capabilities, established a proven record of performance and credibility and built an efficient pricing structure. The Company is committed to optimizing its business model as a single-source premier provider of business and technology solutions with a strong vertical focus offering an integrated suite of services through a global delivery platform.

The Company believes that most companies recognize the importance of advanced technologies and business processes to compete in today's business climate. However, the process of designing, developing and implementing business and technology solutions is becoming increasingly complex. The Company believes that many businesses today are focused on return on investment analysis in prioritizing their initiatives. This has had an adverse impact on spending by current and prospective clients for many emerging new solutions.

Nonetheless, the Company continues to believe that businesses must implement more advanced information technology and engineering solutions to upgrade their systems, applications and processes so that they can maximize their productivity and optimize their performance in order to maintain a competitive advantage. Although working under budgetary, personnel and expertise constraints, companies are driven to support increasingly complex systems, applications and processes of significant strategic value. This has given rise to a demand for outsourcing. The Company believes that its current and prospective clients are continuing to evaluate the potential for outsourcing business critical systems, applications and processes.

The Company provides project management and consulting services, which are billed based on either agreed-upon fixed fees or hourly rates, or a combination of both. The billing rates and profit margins for project management and solutions services are generally higher than those for professional consulting services. The Company generally endeavors to expand its sales of higher margin solutions and project management services. The Company also realizes revenues from client engagements that range from the placement of contract and temporary technical consultants to project assignments that entail the delivery of end-to-end solutions. These services are primarily provided to the client at hourly rates that are established for each of the Company's consultants based upon their skill level, experience and the type of work performed.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

### Overview (Continued)

The majority of the Company's services are provided under purchase orders. Contracts are utilized on certain of the more complex assignments where the engagements are for longer terms or where precise documentation on the nature and scope of the assignment is necessary. Although contracts normally relate to longer-term and more complex engagements, they do not obligate the customer to purchase a minimum level of services and are generally terminable by the customer on 60 to 90 days' notice. The Company, from time to time, enters into contracts requiring the completion of specific deliverables. Typically these contracts are for less than one year. The Company recognizes revenue on these deliverables at the time the client accepts and approves the deliverables.

Costs of services consist primarily of salaries and compensation-related expenses for billable consultants and employees, including payroll taxes, employee benefits and insurance. Selling, general and administrative expenses consist primarily of salaries and benefits of personnel responsible for business development, recruiting, operating activities, and training, and include corporate overhead expenses. Corporate overhead expenses relate to salaries and benefits of personnel responsible for corporate activities, including the Company's corporate marketing, administrative and financial reporting responsibilities and acquisition program. The Company records these expenses when incurred.

### Critical Accounting Policies

The Company's consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles, which require management to make subjective decisions, assessments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the judgment increases, such judgments become even more subjective. While management believes its assumptions are reasonable and appropriate, actual results may be materially different from estimated. Management has identified certain critical accounting policies, described below, that require significant judgment to be exercised by management.

### Revenue Recognition

The Company derives its revenues from several sources. The Company's Engineering Services and Information Technology Services segments perform consulting and project solutions services. All of the Company's segments perform staff augmentation services and derive revenue from permanent placement fees. The majority of the Company's revenues are invoiced on a time and materials basis.

### Project Services

The Company recognizes revenues in accordance with "Revenue Recognition" which clarifies application of U.S. generally accepted accounting principles to revenue transactions. Project services are generally provided on a cost-plus, fixed-fee or time-and-material basis. Typically, a customer will outsource a discrete project or activity and the Company assumes responsibility for the performance of such project or activity. The Company recognizes revenues and associated costs on a gross basis as services are provided to the customer and costs are incurred using its employees. The Company, from time to time, enters into contracts requiring the completion of specific deliverables. The Company may recognize revenues on these deliverables at the time the client accepts and approves the deliverables. In instances where project services are provided on a fixed-price basis and the contract will extend beyond a 12-month period, revenue is recorded in accordance with the terms of each contract. In some instances, revenue is billed and recorded at the time certain milestones are reached, as defined in the contract. In other instances, revenue is billed and recorded based upon contractual rates per hour (i.e., percentage of completion). In addition, some

contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when earned. Some contracts also limit revenues and billings to maximum amounts. Provision for contract losses, if any, are made in the period such losses are determined. For contracts where there is a deliverable, the work is not complete on a specific deliverable and the revenue is not recognized, the associated costs are expensed when incurred.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Revenue Recognition (Continued)

Consulting and Staffing Services

Revenues derived from consulting and staffing services are recorded on a gross basis as services are performed and associated costs have been incurred using employees of the Company. These services are typically billed on a time and material basis.

In certain cases, the Company may utilize other companies and their employees to fulfill customer requirements. In these cases, the Company receives an administrative fee for arranging for, billing for, and collecting the billings related to these companies. The customer is typically responsible for assessing the work of these companies who have responsibility for acceptability of their personnel to the customer. Under these circumstances, the Company's reported revenues are net of associated costs (effectively recognizing the net administrative fee only).

Transit Receivables and Transit Payables

From time to time, the Company's Engineering segment enters into agreements to provide, among other things, construction management and engineering services. Pursuant to these agreements, the Company: a) engages subcontractors to provide construction services; b) typically earns a fixed percentage of the total project value as a fee and c) assumes no ownership or risks of inventory. In such situations, the Company acts as an agent under the provisions of "Overall Considerations of Reporting Revenue Gross as a Principal versus Net as an Agent" and therefore recognizing revenue on a "net-basis." The Company records revenue on a "net" basis on relevant engineering and construction management projects, which require subcontractors or transit costs. In those situations, the Company charges the client a management fee, which is reported as net revenue when earned. Similarly, the Company's Information Technology segment acts as an agent for a major staffing client. The Company manages the staffing requirements for a division of the client and numerous staffing agencies provide staff and the Company collects a management fee. During the thirty-nine week period ended September 29, 2012, the total gross billings, including both transit cost billings and the Company's earned fees, was \$49.6 million, for which the Company recognized \$6.9 million of its net management fee as revenue.

Under the terms of the agreements, the Company is not required to pay the subcontractor under its Engineering contracts or staffing agencies under the Information Technology contract until after the corresponding payment from the Company's client is received. Upon invoicing the end client on behalf of the subcontractor or staffing agency the Company records this amount simultaneously as both a "transit account receivable" and "transit account payable" as the amount when paid to the Company is due to and generally paid to the subcontractor within a few days. The Company typically does not pay a given transit account payable until the related transit account receivable is collected. Transit accounts payable often exceeds transit accounts receivable due to timing differences. The transit accounts receivable was \$3.3 million and related transit accounts payable was \$3.9 million as of September 29, 2012.

Permanent Placement Services

The Company earns permanent placement fees from providing permanent placement services. Fees for placements are recognized at the time the candidate commences employment. The Company guarantees its permanent placements on a prorated basis for 90 days. In the event a candidate is not retained for the 90-day period, the Company will provide a suitable replacement candidate. In the event a replacement candidate cannot be located, the Company will provide a prorated refund to the client. An allowance for refunds, based upon the Company's historical experience, is recorded in the financial statements. Revenues are recorded on a gross basis.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Accounts Receivable

The Company's accounts receivable are primarily due from trade customers. Credit is extended based on evaluation of customers' financial condition and, generally, collateral is not required. Accounts receivable payment terms vary and are stated in the financial statements at amounts due from customers net of an allowance for doubtful accounts. Accounts receivable outstanding longer than the payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible.

Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company is required to assess the carrying value of its reporting units that contain goodwill at least on an annual basis in order to determine if any impairment in value has occurred. The Company has the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. An assessment of those qualitative factors or the application of the goodwill impairment test requires significant judgment including but not limited to the assessment of the business, its management and general market conditions, estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company formally assesses these qualitative factors and, if necessary, conducts its annual goodwill impairment test as of the last day of the Company's fiscal November each year, or more frequently if indicators of impairment exist. The Company periodically analyzes whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in share price and market capitalization, a decline in expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, a material change in management or other key personnel and/or slower expected growth rates, among others. Due to the thin trading of the Company stock in the public marketplace and the impact of the control premium held by a relatively few shareholders, the Company does not consider the market capitalization of the Company the most appropriate measure of fair value of goodwill for our reporting units. The Company looks to earnings/revenue multiples of similar companies recently completing acquisitions and the ability of our reporting units to generate cash flows as better measures of the fair value of our reporting units. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill. There can be no assurance that future tests of goodwill impairment will not result in impairment charges.

Long-Lived and Intangible Assets

The Company evaluates long-lived assets and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When it is probable that undiscounted future cash flows will not be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. Assets to be disposed of by sale, if any, are reported at the lower of the carrying amount or fair value less cost to sell.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Accounting for Stock Options

The Company uses stock options to attract, retain and reward employees for long-term service. The Company follows "Share Based Payment," which requires that the compensation cost relating to stock-based payment transactions be recognized in financial statements. This compensation cost is measured based on the fair value of the equity issued. The Company measures stock-based compensation cost using the Black-Scholes option pricing model.

Insurance Liabilities

The Company has risk participation arrangements with respect to workers compensation and health care insurance. The amounts included in the Company's costs related to this risk participation are estimated and can vary based on changes in assumptions, the Company's claims experience or the providers included in the associated insurance programs.

Accounting for Income Taxes

In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance and estimates of future earnings. As of September 29, 2012, the Company had domestic short term deferred tax income assets of \$0.7 million, total domestic long term net deferred income tax assets of \$2.4 million and foreign deferred income tax liability of \$0.1 million. The domestic short term deferred tax assets primarily represent the tax effect of accrued expenses which will be deductible for tax purposes within a twelve month period. The domestic long term deferred tax assets represent the tax effect of temporary differences for the GAAP versus tax amortization of intangibles arising from acquisitions. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

The Company conducts its operations in multiple tax jurisdictions in the United States, Puerto Rico and Canada. With limited exceptions, the Company is no longer subject to audits by state and local tax authorities for tax years prior to 2009. The Company's federal income tax returns have been examined through 2010.

The Company's future effective tax rates could be adversely affected by changes in the valuation of its deferred tax assets or liabilities or changes in tax laws or interpretations thereof. In addition, the Company is subject to the examination of its income tax returns by the Internal Revenue Service and other tax authorities. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes.

There have been no changes in the unrecognized tax benefits from the balance recorded as of December 31, 2011.

Accrued Bonuses

The Company pays bonuses to certain executive management, field management and corporate employees based on, or after giving consideration to, a variety of financial performance measures. Executive management, field management and certain corporate employees' bonuses are accrued throughout the year for payment during the first

quarter of the following year, based in part upon anticipated annual results compared to annual budgets. In addition, the Company pays discretionary bonuses to certain employees, which are not related to budget performance. Variances in actual results versus budgeted amounts can have a significant impact on the calculations and therefore on the estimates of the required accruals. Accordingly, the actual earned bonuses may be materially different from the estimates used to determine the quarterly accruals.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Forward-looking Information

The Company's growth prospects are influenced by broad economic trends. The pace of customer capital spending programs, new product launches and similar activities have a direct impact on the need for information technology and engineering services. When the U.S., Canadian or global economies decline, the Company's operating performance could be adversely impacted. The Company believes that its fiscal discipline, strategic focus on targeted vertical markets and diversification of service offerings provides some insulation from adverse trends. However, declines in the economy could result in the need for future cost reductions or changes in strategy.

Additionally, changes in government regulations could result in prohibition or restriction of certain types of employment services or the imposition of new or additional employee benefits, licensing or tax requirements with respect to the provision of employment services that may reduce the Company's future earnings. There can be no assurance that the Company will be able to increase the fees charged to its clients in a timely manner and in a sufficient amount to cover increased costs as a result of any of the foregoing.

The consulting and employment services market is highly competitive with limited barriers to entry. The Company competes in global, national, regional and local markets with numerous competitors in all of the Company's service lines. Price competition in the industries the Company serves is significant, and pricing pressures from competitors and customers are increasing. The Company expects that the level of competition will remain high in the future, which could limit the Company's ability to maintain or increase its market share or profitability.

Thirteen Week Period Ended September 29, 2012 Compared to Thirteen Week Period Ended October 1, 2011

A summary of operating results for the thirteen week periods ended September 29, 2012 and October 1, 2011 is as follows (in thousands):

	September 29, 2012		October 1, 2011	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	\$34,839	100.0	\$33,559	100.0
Cost of services	25,164	72.2	24,461	72.9
Gross profit	9,675	27.8	9,098	27.1
Selling, general and administrative	8,153	23.5	8,077	24.1
Depreciation and amortization	415	1.1	279	0.8
	8,568	24.6	8,356	24.9
Operating income	1,107	3.2	742	2.2
Other income (expense), net	(12)	0.0	1	0.0
Income before income taxes	1,095	3.2	743	2.2
Income tax expense	461	1.3	19	0.0
Net income	\$634	1.9	\$724	2.2

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarter reporting periods ended September 29, 2012 and October 1, 2011 consisted of thirteen weeks each.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Thirteen Week Period Ended September 29, 2012 Compared to Thirteen Week Period Ended October 1, 2011  
(Continued)

**Revenues.** Revenues increased 3.8%, or \$1.3 million, for the thirteen week period ended September 29, 2012 as compared to the thirteen week period ended October 1, 2011 (the "comparable prior year period"). Revenues decreased \$0.2 million in the Information Technology segment, increased \$1.5 million in the Engineering segment, and decreased \$0.1 million in the Specialty Health Care segment. See Segment Discussion for further information on revenue changes.

**Cost of Services.** Cost of services increased 2.9%, or \$0.7 million, for the thirteen week period ended September 29, 2012 as compared to the comparable prior year period. The increase in cost of services was primarily due to the BGA acquisition. Cost of services as a percentage of revenues decreased to 72.2% for the thirteen week period ended September 29, 2012 from 72.9% for the comparable prior year period. The decrease in cost of services as a percentage of revenues was primarily due to improvements in the Company's Information Technology segment as a result of concentrated efforts to focus on higher gross margin services.

**Selling, General and Administrative.** Selling, general and administrative ("SGA") expenses increased 0.9%, or \$0.1 million, for the thirteen week period ended September 29, 2012 as compared to the comparable prior year period. The increase in SGA expense was primarily due to the BGA acquisition. As a percentage of revenues, SGA expenses were 23.5% for the thirteen week period ended September 29, 2012 as compared to 24.1% for the comparable prior year period. The decrease in SGA expenses as a percentage of revenues was primarily due to a concerted effort to reduce SGA expense throughout the Company.

**Other Income, Net.** Other income, net consists of interest expense, unused line fees and amortized loan costs on the Company's loan agreement, net of interest income, gains and losses on foreign currency transactions.

**Income Tax Expense.** The Company recognized \$0.5 million of income tax expense for the thirteen week period ended September 29, 2012 as compared to negligible income tax expense for the comparable prior year period. The consolidated effective income tax rate for the current period was 43.9% as compared to 2.6% for the comparable prior year period. The unusually low consolidated effective tax rate in the prior period was due to recognizing a discreet benefit. The projected fiscal 2012 effective income tax rate as of September 29, 2012 is approximately 42.9% and 26.8% in the United States and Canada, respectively. The relative income or loss generated in each jurisdiction impacts the overall effective income tax rate of the company. In the current quarter, we decreased our consolidated effective income tax rate for the year as a result of changes in our expectation of the relative profitability in each jurisdiction.

Segment Discussion (See Note 14 to the Consolidated Financial Statements)

Information Technology

Information Technology revenues of \$12.4 million in the thirteen week period ended September 29, 2012 decreased \$0.2 million, or 1.3%, as compared to the comparable prior year period. The Company believes the decrease in revenue was primarily attributable to the continued residual impact from poor execution by its sales generation team in 2011, which the Company has taken, and continues to take, steps to remediate, and the Company's focus on higher gross margin services. The Company is encouraged that the Information Technology segment's gross profit increased

\$0.3 million, or 10.2%, in the thirteen week period ended September 29, 2012 as compared to the comparable prior year period. The Information Technology segment operating income was \$0.2 million for the thirteen week period ended September 29, 2012 as compared to an operating loss of \$0.2 million in the comparable prior year period. The increase in operating income was due to improvements in the Company's cost of sales as a percentage of revenues, resulting from a focus on higher profit assignments.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Thirteen Week Period Ended September 29, 2012 Compared to Thirteen Week Period Ended October 1, 2011  
(Continued)

Segment Discussion Continued (See Note 14 to the Consolidated Financial Statements)

Engineering

Engineering revenues of \$17.1 million in the thirteen week period ended September 29, 2012 increased \$1.5 million, or 9.8%, as compared to the comparable prior year period. The increase was primarily due to the BGA acquisition which contributed revenues of \$1.6 million. The Engineering segment operating income was \$0.9 million for the thirteen week period ended September 29, 2012 as compared to \$1.0 million in the comparable prior year period. The decrease in operating income was primarily due to an increase in cost of sales for the Company's Canadian Engineering division, a \$0.2 million write-down of equipment no longer in use in Canada and deemed worthless and a higher allocation of corporate SGA expense as compared to the comparable prior year period.

Specialty Health Care

Specialty Health Care revenues of \$5.3 million in the thirteen week period ended September 29, 2012 decreased \$0.1 million, or 1.6%, as compared to the comparable prior year period. The Company believes that the decrease was due to normal fluctuations in revenues. The Specialty Health Care segment's operating loss for the thirteen week period ended September 29, 2012 decreased slightly as compared to the comparable prior year period. Consistent with prior year results, the Company's third quarter revenues experienced a seasonal reduction due to the fact that the Specialty Health Care segment's largest customer, a large school system, significantly slows its activities during the summer months.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Thirty-Nine Week Period Ended September 29, 2012 Compared to Thirty-Nine Week Period Ended October 1, 2011

A summary of operating results for the thirty-nine week periods ended September 29, 2012 and October 1, 2011 is as follows (in thousands):

	September 29, 2012		October 1, 2011	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	\$108,798	100.0	\$108,779	100.0
Cost of services	79,182	72.8	78,171	71.9
Gross profit	29,616	27.2	30,608	28.1
Selling, general and administrative	24,766	22.8	24,919	22.9
Depreciation and amortization	953	0.8	867	0.8
	25,719	23.6	25,786	23.7
Operating income	3,897	3.6	4,822	4.4
Other income (expense), net	18	0.0	5	0.0
Income before income taxes	3,915	3.6	4,827	4.4
Income tax expense	1,718	1.6	1,686	1.5
Net income	\$2,197	2.0	\$3,141	2.9

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The year-to-date reporting periods ended September 29, 2012 and October 1, 2011 consisted of thirty-nine weeks each.

**Revenues.** Revenues on a consolidated basis increased marginally for the thirty-nine week period ended September 29, 2012 as compared to the thirty-nine week period ended October 1, 2011 (the "comparable prior year period"). Revenues decreased \$1.7 million in the Information Technology segment, increased \$0.9 million in the Engineering segment, and increased \$0.8 million in the Specialty Health Care segment. See Segment Discussion for further information on revenue changes.

**Cost of Services.** Cost of services increased 1.3%, or \$1.0 million, for the thirty-nine week period ended September 29, 2012 as compared to the comparable prior year period. The increase in cost of services was primarily due to the BGA acquisition. Cost of services as a percentage of revenues increased to 72.8% for the thirty-nine week period ended September 29, 2012 from 71.9% for the comparable prior year period. The increase in cost of services as a percentage of revenues was primarily due to a reduction in higher margin project work and higher non-billable labor expenses associated with the Engineering segment's Canadian Engineering division.

**Selling, General and Administrative.** SGA expenses decreased 0.6%, or \$0.2 million, for the thirty-nine week period ended September 29, 2012 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 22.8% for the thirty-nine week period ended September 29, 2012 as compared to 22.9% for the comparable prior year period. The decrease in SGA expenses and SGA expenses as a percentage of revenues was primarily due to a concerted effort by the Company to reduce SGA expenses offset by an increase in bad debt expense

of \$0.3 million. The primary components of the reduction include labor, its related expenses and professional fees.

Other Income, Net. Other income, net consists of interest expense, unused line fees and amortized loan costs on the Company's loan agreement, net of interest income, gains and losses on foreign currency transactions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Thirty-Nine Week Period Ended September 29, 2012 Compared to Thirty-Nine Week Period Ended October 1, 2011  
(Continued)

**Income Tax Expense.** The Company recognized \$1.7 million of income tax expense for the thirty-nine week periods ended September 29, 2012 and October 1, 2011. The consolidated effective income tax rate for the current period was 43.9% as compared to 34.9% for the comparable prior year period. The increase in the consolidated effective tax rate was primarily due to recognizing a discreet benefit in the prior period. The projected fiscal 2012 effective income tax rate as of September 29, 2012 is approximately 42.9% and 26.8% in the United States and Canada, respectively. The relative income or loss generated in each jurisdiction impacts the overall effective income tax rate of the company. In the current period, we decreased our consolidated effective income tax rate for the year as a result of changes in our expectation of the relative profitability in each jurisdiction.

Segment Discussion (See Note 14 to the Consolidated Financial Statements)

**Information Technology**

Information Technology revenues of \$39.5 million in the thirty-nine week period ended September 29, 2012 decreased \$1.7 million, or 4.1%, as compared to the comparable prior year period. The Company believes the decrease in revenue was primarily attributable to the continued residual impact from poor execution by its sales generation team in 2011, which the Company has taken, and continues to take, steps to remediate, and the Company's focus on higher gross margin services. The Company is encouraged that the Information Technology Segment's gross profit increased \$0.3 million, or 10.2%, in the thirteen week period ended September 29, 2012 as compared to the comparable prior year period. The Information Technology segment operating income was \$0.7 million for the thirty-nine week period ended September 29, 2012 as compared to \$0.1 million in the comparable prior year period. The increase in operating income was due to improvements in the Company's cost of sales as a percentage of revenues and a reduction in SGA expenses.

**Engineering**

Engineering revenues of \$48.5 million in the thirty-nine week period ended September 29, 2012 increased \$0.9 million, or 1.9%, as compared to the comparable prior year period. The increase was primarily due to the BGA acquisition which contributed revenues of \$1.6 million. Revenues from the Company's Canadian Engineering division decreased by \$3.5 million and was offset by increases of \$2.8 million from the balance of the Engineering segment. The Company believes the revenue decrease for its Canadian Engineering division was due mainly to procedural client delays. The Engineering segment operating income was \$2.2 million for the thirty-nine week period ended September 29, 2012 as compared to \$3.5 million in the comparable prior year period. The decrease in operating income was primarily due to an increase in cost of services as a percentage of revenues to 76.5% for the thirty-nine week period ended September 29, 2012 as compared to 73.8% in the comparable prior year period and a higher allocation of corporate SGA expense as compared to the comparable prior year period. The increase in cost of services as a percentage of revenues was primarily due to increases in non-billable labor in the Company's Canadian Engineering division due to the heightened need for non-billable proposal preparation and needs to maintain its highly trained workforce for expected increases in demand for services in the fourth quarter of fiscal 2012 and fiscal 2013. The Company believes it will experience decreased cost of services as a percentage of revenues in the Engineering segment during the fourth quarter of fiscal 2012 and fiscal 2013.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Thirty-Nine Week Period Ended September 29, 2012 Compared to Thirty-Nine Week Period Ended October 1, 2011  
(Continued)

Segment Discussion Continued (See Note 14 to the Consolidated Financial Statements)

Specialty Health Care

Specialty Health Care revenues of \$20.7 million in the thirty-nine week period ended September 29, 2012 increased \$0.8 million, or 4.1%, as compared to the comparable prior year period. The increase was primarily due to the Company's concerted efforts to expand its geographic reach. The Specialty Health Care segment operating income was \$1.0 million for the thirty-nine week period ended September 29, 2012 as compared to \$1.2 million for the comparable prior year period. The decrease in operating income was primarily due to an increase in cost of services of 68.1% for the thirty-nine week period ended September 29, 2012 as compared to 66.3% in the comparable prior year period. The primary reasons for the increase in cost of services was due to labor rate increases in the Company's core geographic markets and the fact that as the Company expands its geographic reach, more competitive pricing is often necessary.

Liquidity and Capital Resources

The following table summarizes the major captions from the Company's Consolidated Statements of Cash Flows (in thousands):

	Thirty-Nine Week Periods Ended	
	September 29, 2012	October 1, 2011
Cash provided by (used in):		
O p e r a t i n g activities	\$7,448	\$9,843
I n v e s t i n g activities	(\$1,651)	(\$344)
F i n a n c i n g activities	(\$3,983)	(\$1,576)

Operating Activities

Operating activities provided \$7.4 million of cash for the thirty-nine week period ended September 29, 2012 as compared to \$9.8 million in the comparable prior year period. The major components of the cash provided by operating activities in the thirty-nine week period ended September 29, 2012 and the comparable prior year period are as follows: net income and changes in accounts receivable, the net of transit accounts payable and transit accounts receivable, accounts payable and accrued expenses and accrued payroll and related costs.

Net income for the thirty-nine week period ended September 29, 2012 was \$2.2 million as compared to \$3.1 million for the comparable prior year period. A decrease in accounts receivables in the thirty-nine week period ended September 29, 2012 provided \$0.9 million as compared to providing \$2.6 million in the comparable prior year period.



The Company primarily attributes the decrease in accounts receivables for the thirty-nine week period ended September 29, 2012 to increased efforts to reduce accounts receivable. The Company's net of transit accounts payable and transit accounts receivable generated \$0.6 million in the thirty-nine week period ended September 29, 2012, as compared to \$2.4 million for in the comparable prior year period. The transit accounts payable temporarily exceeds transit accounts receivable, but is expected to reach equal levels shortly after September 29, 2012.

A decrease in accounts payable and accrued expenses used \$0.2 million as compared to using \$0.7 million for the comparable prior year period. The Company attributes these changes to general timing of payments to vendors in the normal course of business. An increase in accrued payroll and related costs in the thirty-nine week period ended September 29, 2012 provided \$1.9 million as compared to providing \$1.5 million in the comparable prior year period. The increase in accrued payroll and related costs during the thirty-nine week period ended September 29, 2012 primarily relates to the timing of the Company's bi-weekly payroll in normal course of business.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Liquidity and Capital Resources (Continued)

Investing Activities

Investing activities used cash of \$1.7 million for the thirty-nine week period ended September 29, 2012 as compared to using \$0.3 million in the comparable prior year period. The increase in cash used by investing activities was primarily attributable to \$1.3 million used to acquire the assets of BGA. The Company anticipates upgrading its ERP system sometime in 2013 and, depending on what system is selected, it may see a significant rise in expenditures for property and equipment.

Financing Activities

Financing activities used \$4.0 million of cash for the thirty-nine week period ended September 29, 2012 as compared to using \$1.6 million for the comparable prior year period. The primary use of cash was \$4.4 million for the Company's share repurchase program as compared to \$1.8 million in the comparable prior year period. Cash was provided by the exercise of stock options and issuance of stock under the Company's employee stock purchase plan of \$0.4 million as compared to \$0.3 million for the comparable prior year period.

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, amended and restated effective February 20, 2009, which provides for a \$15 million revolving credit facility and includes a sub-limit of \$5 million for letters of credit (the "Revolving Credit Facility"). The Revolving Credit Facility has been amended several times, most recently on December 24, 2011 when the maturity date was extended to August 31, 2016. Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, or (ii) Citizens Bank's prime rate. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as restrictions on the Company's ability to pay dividends.

There were no borrowings during the thirty-nine week periods ended September 29, 2012 and October 1, 2011. At September 29, 2012 and December 31, 2011, there were letters of credit outstanding for \$0.9 million. At September 29, 2012, the Company had availability for additional borrowings under the Revolving Credit Facility of \$14.1 million.

As of September 29, 2012, \$5.9 million of the \$30.2 million (on the Consolidated Balance Sheet) of cash and cash equivalents was held by foreign subsidiaries.

Commitments

The Company anticipates that its primary uses of capital in future periods will be for working capital purposes. Funding for any long-term and short-term capital requirements as well as future acquisitions will be derived from one or more of the Revolving Credit Facility (or a replacement thereof), funds generated through operations or future financing transactions. The Company is subject to legal proceedings and claims that arise from time to time in the ordinary course of its business (see Footnote 16), which may or may not be covered by insurance. Were an unfavorable final outcome to occur, there exists the possibility of a material adverse impact on our financial position, liquidity, and the results of operations.

The Company's business strategy is to achieve growth both internally through operations and externally through strategic acquisitions. The Company from time to time engages in discussions with potential acquisition candidates. As the size of the Company and its financial resources increase however, acquisition opportunities requiring significant commitments of capital may arise. In order to pursue such opportunities, the Company may be required to incur debt or issue potentially dilutive securities in the future. No assurance can be given as to the Company's future acquisition and expansion opportunities or how such opportunities will be financed.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Liquidity and Capital Resources (Continued)

Commitments - (Continued)

The Company does not currently have material commitments for capital expenditures. However, the Company anticipates that it will begin to upgrade its current ERP system sometime in 2013 and depending on what system is selected, it may see a significant rise in expenditures for property and equipment. The Company's current commitments consist primarily of lease obligations for office space. The Company believes that its capital resources are sufficient to meet its present obligations and those to be incurred in the normal course of business for at least the next 12 months.

The Company leases office facilities and various equipment under non-cancelable leases expiring at various dates through June 2019. Certain leases are subject to escalation clauses based upon changes in various factors. The minimum future annual operating lease commitments for leases with non-cancelable terms, exclusive of unknown operating escalation charges, are as follows (in thousands):

Fiscal Years	Amount
2012 (after September 29, 2012)	\$830
2013	2,385
2014	1,459
2015	1,132
2016	1,008
2017	860
Thereafter	1,187
Total	\$8,861

Future Contingent Payments

As of September 29, 2012, the Company had two active acquisition agreements: 1) the Company acquired certain assets of Project Solutions Group, Inc. ("PSG") in 2009; and 2) effective July 1, 2012 the Company acquired certain assets of BGA, LLC ("BGA") as more fully described in Footnote 6. The Company cannot estimate future contingent payments with any certainty. However, the Company estimates future contingent payments as follows (in thousands):

Period Ending	PSG	BGA	Total
December 29, 2012	\$11	\$ -	\$11
December 28, 2013	184	228	412
January 3, 2015	-	253	253
January 2, 2016	-	269	269
December 31, 2016	-	307	307
Estimated Future Contingent Payments	\$1,057	\$1,252	\$195

Actual future contingent payments may materially exceed the estimates above. In the case of future payments to PSG the Company believes that it is highly unlikely that any future payments, if any, will materially exceed the estimates above. Future contingent payments to be made to BGA, if any, shall in no event exceed \$3.0 million cumulatively.



### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of its Revolving Credit Facility. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of September 29, 2012, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Presently the impact of a 10% (approximately 90 basis points) increase in interest rates on its variable debt (using an incremental borrowing rate) would have a relatively nominal impact on the Company's results of operations. The Company does not expect any material loss with respect to its investment portfolio.

### ITEM 4. CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures as of the end of the period covered by this report were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter and that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See discussion of Contingencies in Note 16 to the Consolidated Financial Statements included in Item 1 of this report.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the “Risk Factors” section (Item 1A) of the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, as updated in the Company’s Quarterly Report for the fiscal quarter ended September 29, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information relating to the Company’s repurchases of common stock during the third quarter of 2012 under the share repurchase program authorized by our Board of Directors in February 2010 and extended in February 2011.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July 1 – July 31	43,639	\$5.47	43,639	\$478,000
August 1 – August 31	12,267	\$5.51	12,267	\$411,000
September 1 – September 29	8,921	\$5.47	8,921	\$362,000
Total	64,827	\$5.48	64,827	\$362,000

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

- 31.1 Certification of Chairman, President and Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Chairman, President and Chief Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)
- 32.2 Certification of Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema Document
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Documents
- 101.DEF\* XBRL Taxonomy Definition Linkbase Document

\*XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

RCM TECHNOLOGIES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RCM Technologies, Inc.

Date: November 7,  
2012

By: /s/ Leon Kopyt

Leon Kopyt  
Chairman, President and Chief Executive  
Officer  
(Principal Executive Officer and  
Duly Authorized Officer of the Registrant)

Date: November 7,  
2012

By: /s/ Kevin Miller

Kevin Miller  
Chief Financial Officer  
(Principal Financial Officer and  
Duly Authorized Officer of the Registrant)

Exhibit 31.1

RCM TECHNOLOGIES, INC.  
CERTIFICATIONS REQUIRED BY  
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATION

I, Leon Kopyt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RCM Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2012

/s/ Leon Kopyt  
Leon Kopyt  
Chairman, President and Chief Executive  
Officer

Exhibit 31.2

RCM TECHNOLOGIES, INC.  
CERTIFICATIONS REQUIRED BY  
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATION

I, Kevin Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RCM Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2012

/s/ Kevin Miller  
Kevin Miller  
Chief Financial Officer

Exhibit 32.1

RCM TECHNOLOGIES, INC.

CERTIFICATIONS REQUIRED BY  
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Leon Kopyt, President and Chief Executive Officer of RCM Technologies, Inc., a Nevada corporation (the “Company”), hereby certify that, to my knowledge:

- (1) The Company’s periodic report on Form 10-Q for the quarter ended September 29, 2012 (the “Form 10-Q”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

\* \* \*

/s/ Leon Kopyt  
Leon Kopyt  
Chairman, President and Chief Executive Officer

Date: November 7, 2012

Exhibit 32.2

RCM TECHNOLOGIES, INC.

CERTIFICATIONS REQUIRED BY  
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Kevin Miller, Chief Financial Officer of RCM Technologies, Inc., a Nevada corporation (the "Company"), hereby certify that, to my knowledge:

- (1) The Company's periodic report on Form 10-Q for the quarter ended September 29, 2012 (the "Form 10-Q") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

\* \* \*

/s/ Kevin Miller  
Kevin Miller  
Chief Financial Officer

Date: November 7, 2012

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