

RCM TECHNOLOGIES INC  
Form 10-Q  
October 31, 2013

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 28, 2013

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, 12,366,959 shares outstanding as of October 30, 2013.

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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 28, 2013 and December 29, 2012  
 (In thousands, except share and per share amounts)

	September 28, 2013 (Unaudited)	December 29, 2012
Current assets:		
Cash and cash equivalents	\$14,049	\$14,123
Accounts receivable, net	54,828	43,706
Transit accounts receivable	5,374	10,010
Prepaid expenses and other current assets	1,244	1,965
Deferred income tax assets, domestic	485	541
Total current assets	75,980	70,345
 Property and equipment, net	 2,219	 1,880
Other assets:		
Deposits	203	244
Goodwill	9,545	9,545
Intangible assets, net	236	332
Deferred income tax assets, domestic	1,773	2,202
Total other assets	11,757	12,323
Total assets	\$89,956	\$84,548
 Current liabilities:		
Accounts payable and accrued expenses	\$11,374	\$6,334
Transit accounts payable	5,808	11,987
Accrued payroll and related costs	7,951	6,241
Income taxes payable	1,006	119
Deferred income tax liability, foreign	102	73
Contingent consideration	313	309
Total current liabilities	26,554	25,063
Contingent consideration	617	713
Total liabilities	27,171	25,776
 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; 13,839,265 shares issued and 12,365,959 shares outstanding at	692	688

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	September 28, 2013 and 13,756,589 shares issued and 12,298,733 shares outstanding at December 29, 2012	
Additional paid-in capital	110,258	109,390
Accumulated other comprehensive income	1,022	1,370
Accumulated deficit	(41,687)	(45,259)
Treasury stock common (1,473,306 shares at September 28, 2013 and 1,457,856 at December 29, 2012, at cost)	(7,500)	(7,417)
Stockholders' equity	62,785	58,772
Total liabilities and stockholders' equity	\$89,956	\$84,548

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 28, 2013 and September 29, 2012

(Unaudited)

(In thousands, except per share amounts)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September	September	September	September
	28, 2013	29, 2012	28, 2013	29, 2012
Revenues	\$41,320	\$34,839	\$124,929	\$108,798
Cost of services	30,636	25,164	92,362	79,182
Gross profit	10,684	9,675	32,567	29,616
Operating costs and expenses				
Selling, general and administrative	8,599	8,153	26,361	24,766
Facilities consolidation charge	-	-	343	-
Depreciation and amortization	279	415	829	953
	8,878	8,568	27,533	25,719
Operating income	1,806	1,107	5,034	3,897
Other (expense) income				
Interest expense and other, net	(14)	(11)	(36)	(32)
Reduction in contingent consideration	-	-	92	43
Gain on foreign currency transactions	10	(1)	18	7
	(4)	(12)	74	18
Income before income taxes	1,802	1,095	5,108	3,915
Income tax expense	660	461	1,536	1,718
Net income	\$1,142	\$634	\$3,572	\$2,197
Basic net earnings per share	\$0.09	\$0.05	\$0.29	\$0.18
Diluted net earnings per share	\$0.09	\$0.05	\$0.29	\$0.17

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Thirty-Nine Week Periods Ended September 28, 2013 and September 29, 2012  
(Unaudited)  
(In thousands)

	September 28, 2013	September 29, 2012
Net income	\$3,572	\$2,197
Foreign currency translation adjustment	(348)	110
Comprehensive income	\$3,224	\$2,307

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 28, 2013  
(Unaudited)  
(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Treasury Stock		Total
	Issued Shares	Amount		Accumulated Deficit		Shares	Amount	
Balance, December 29, 2012	13,756,589	\$688	\$109,390	\$1,370	(\$45,259)	1,457,856	(\$7,417)	\$58,772
Issuance of stock under employee stock purchase plan	58,176	3	256					259
Translation adjustment				(348)				(348)
Issuance of stock upon exercise of stock options	24,500	1	97					98
Share-based compensation expense			515					515
Common stock repurchase						15,450	(83)	(83)
Net income					3,572			3,572
Balance, September 28, 2013	13,839,265	\$692	\$110,258	\$1,022	(\$41,687)	1,473,306	(\$7,500)	\$62,785

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 28, 2013 and September 29, 2012  
(Unaudited)  
(In thousands)

	September 28, 2013	September 29, 2012
Cash flows from operating activities:		
Net income	\$3,572	\$2,197
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	829	953
Changes in fair value of contingent consideration	(92)	(43)
Stock-based compensation expense	515	60
Provision for allowance for doubtful accounts	(519)	353
Deferred income tax expense	518	430
Changes in assets and liabilities:		
Accounts receivable	(11,055)	891
Transit accounts receivable	4,641	(304)
Prepaid expenses and other current assets	682	170
Accounts payable and accrued expenses	5,178	(227)
Transit accounts payable	(6,180)	881
Accrued payroll and related costs	1,764	1,854
Income taxes payable	887	233
Total adjustments	(2,832)	5,251
Net cash provided by operating activities	740	7,448
Cash flows from investing activities:		
Property and equipment acquired	(1,071)	(250)
Decrease (increase) in deposits	41	(109)
Cash paid for acquisition	-	(1,292)
Net cash used in investing activities	(1,030)	(1,651)
Cash flows from financing activities:		
Sale of stock for employee stock purchase plan	259	128
Exercise of stock options	98	314
Common stock repurchases	(83)	(4,425)
Net cash provided by (used in) financing activities	274	(3,983)
Effect of exchange rate changes on cash and cash equivalents	(58)	(19)
(Decrease) increase in cash and cash equivalents	(74)	1,795
Cash and cash equivalents at beginning of period	14,123	28,417
Cash and cash equivalents at end of period	\$14,049	\$30,212

Supplemental cash flow information:

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Cash paid for:

Interest	\$46	\$35
Income taxes	\$250	\$1,616

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

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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)

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 29, 2012 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 28, 2013 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 29, 2012 was a 52-week reporting year. The third fiscal quarters of 2013 and 2012 ended on the following dates, respectively:

Period Ended	Weeks in Quarter	Weeks in Year to Date
September 28, 2013	Thirteen	Thirty-Nine
September 29, 2012	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 28, 2013	December 29, 2012
Billed	\$36,131	\$26,600
Accrued and unbilled	5,839	4,761
Work-in-progress	13,836	13,552
Allowance for doubtful accounts and sales discounts	(978)	(1,207)
Accounts receivable, net	\$54,828	\$43,706

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 28, 2013	December 29, 2012
Equipment and furniture	\$2,380	\$2,366
Computers and systems	5,582	5,204

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Leasehold improvements	480	949
	8,442	8,519
Less: accumulated depreciation and amortization	6,223	6,639
Property and equipment, net	\$2,219	\$1,880

The Company periodically writes off fully depreciated assets. The Company wrote off fully depreciated assets of \$1,149 and \$1,466 for the thirty-nine week periods ended September 28, 2013 and September 29, 2012, 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

The Company has acquired numerous companies throughout its history and those acquisitions have generally included significant future contingent consideration.

Future Contingent Payments

As of September 28, 2013, the Company had one active acquisition agreement whereby additional contingent consideration may be earned. Effective July 1, 2012 the Company acquired certain assets of BGA, LLC (“BGA”) as more fully described below. The Company estimates future contingent payments at September 28, 2013 as follows:

Period Ending	
December 28, 2013	\$313
January 3, 2015	253
January 2, 2016	269
December 31, 2016	307
Estimated future contingent consideration payments	\$1,142

Actual future contingent payments may materially differ from the estimates above. Future contingent payments to be made to BGA are capped at a maximum of \$3.0 million cumulatively. The Company estimates future contingent consideration in payments based on forecasted performance and recorded the net present value of those expected payments as of September 28, 2013. The measurement is based on significant inputs that are not observable in the market, which “Fair Value Measurements and Disclosures” (ASU Topic 820-10-35) refers to as Level 3 inputs.

During the thirty-nine week period ended September 28, 2013, the Company reduced its liability for contingent consideration by \$92, which eliminates any remaining accrual for contingent consideration related to the 2009 acquisition of certain assets of Project Solutions Group, Inc. The reduction is reflected in other income. There were no other changes to the fair value of the contingent consideration during the thirty-nine week period ended September 28, 2013. The Company paid no consideration during the thirty-nine week period ended September 28, 2013 or 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 who will greatly assist RCM in executing future growth in revenues. The business acquired in 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, at fair value	469
Contingent consideration, at	930



fair value  
Total                \$2,691  
consideration

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
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 (In thousands, except share and per share amounts, unless otherwise indicated)

6. Acquisitions (Continued)

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

Fixed assets	\$28
Restricted covenants	70
Customer relationships	180
Deferred tax asset	187
Goodwill	2,226
Total consideration	\$2,691

Fixed assets acquired were recorded at approximate market value. The values of restricted covenants and customer relationships were recorded based on the valuation of a third party firm. The primary item that generated goodwill was the acquisition of a highly skilled and trained assembled workforce of engineers that the Company anticipates may allow it to win contract awards from its current and future customer base that the Company would not otherwise win.

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 thirty-nine week period ended September 29, 2012. 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.

	Proforma Results for the Thirty-Nine Week Period Ended September 29, 2012
Revenues	\$111,401
Operating income	4,032
Basic and diluted earnings per share	\$0.18



RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
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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 carrying amount of goodwill at both September 28, 2013 and December 29, 2012 for the Company's Information Technology, Engineering and Specialty Health Care segments was \$5,516, \$2,326 and \$1,703, respectively.

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 Company's intangible assets consist of customer relationships and non-compete agreements.

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

	Information Technology	Engineering	Total
Balance as of December 29, 2012	\$106	\$226	\$332
Amortization of intangibles during the thirty-nine week period ended September 28, 2013	60	36	96
Balance as of September 28, 2013	\$46	\$190	\$236

The Company periodically writes off fully amortized intangible assets. The Company did not write off any fully amortized intangibles for the thirty-nine week period ended September 28, 2013 and wrote off fully amortized intangibles of \$171 for the thirty-nine week period ended September 29, 2012.

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 borrow to pay dividends.

There were no borrowings during the thirty-nine week periods ended September 28, 2013 and September 29, 2012. At both September 28, 2013 and December 29, 2012, there were letters of credit outstanding for \$0.8 million. At September 28, 2013, the Company had availability for additional borrowings under the Revolving Credit Facility of \$14.2 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 thirteen and thirty-nine week periods ended September 28, 2013 and September 29, 2012 was determined as follows:

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Basic weighted average shares outstanding	12,364,018	12,057,478	12,333,318	12,422,558
Dilutive effect of outstanding stock				
options	123,400	194,731	98,143	205,140
Weighted average dilutive shares outstanding	12,487,418	12,252,209	12,431,461	12,627,698

There were 97,500 and 62,500 absolute anti-dilutive shares not included in the calculation of common stock equivalents for the thirty-nine week periods ended September 28, 2013 and September 29, 2012, respectively. These were determined to be anti-dilutive because the exercise prices of these shares for the period were higher than the average price of all shares for the same period.



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 28, 2013	December 29, 2012
Exercise of options outstanding	279,900	307,400
Restricted stock awards outstanding	327,500	350,000
Future grants of options or shares	56,600	34,100
Shares reserved for employee stock purchase plan	189,576	247,752
<b>Total</b>	<b>853,576</b>	<b>939,252</b>

11. Share-Based Compensation

At September 28, 2013, the Company had three share-based employee compensation plans. The Company measures the fair value of share-based awards, 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. Awards 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 \$515 and \$60 was recognized for the thirty-nine week periods ended September 28, 2013 and September 29, 2012, respectively.

As of September 28, 2013, the Company had approximately \$1.2 million of total unrecognized compensation cost related to all non-vested share-based 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 share-based awards that may be granted in future periods or reflect any potential changes in the Company's forfeiture rate.

**Incentive Share-Based Plans**

**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 28, 2013, options to purchase 132,000 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 28, 2013, options to purchase 71,500 shares of common stock granted under the 2000 Plan were outstanding.

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



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)

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 28, 2013, under the 2007 Plan, 56,600 shares of common stock were available for future grants and options to purchase 76,400 shares of common stock, as well as 327,500 restricted stock units, were outstanding.

Stock Options

There were 5,000 options granted during the thirty-nine week period ended September 28, 2013 and 20,000 options granted during the thirty-nine week period ended September 29, 2012. Activity regarding outstanding options for the thirty-nine week period ended September 28, 2013 is as follows:

	All Stock Options Outstanding	Weighted Average Exercise Price
	Shares	
Options outstanding as of December 29, 2012	307,400	\$5.34
Options granted	5,000	\$5.78
Options exercised	(24,500)	\$4.01
Options forfeited/cancelled	(8,000)	\$5.16
Options outstanding as of September 28, 2013	279,900	\$5.47
Options outstanding price range at September 28, 2013	\$2.50 - \$9.81	
Options exercisable as of September 28, 2013	224,900	\$5.44
Intrinsic value of outstanding stock options as of September 28, 2013	\$290	
Intrinsic value of stock options exercised for the thirty-nine week period ended September 28, 2013	\$40	



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

As of September 28, 2013, the Company had approximately \$0.1 million of total unrecognized compensation cost related to non-vested stock option 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.

Restricted Stock Units

On November 16, 2012, the Company granted 350,000 restricted stock units all of which fully vest after three years of continued service. All of these restricted stock units include dividend accrual equivalents, which means that any dividends paid by the Company during the three year vesting period become due and payable after the three year vesting period assuming the grantee's restricted stock unit fully vests. Dividends for these grants are accrued on the dividend payment dates and included in accounts payable and accrued expenses on the accompanying consolidated balance sheet. Dividends for restricted share units that ultimately do not vest are forfeited.

To date, the Company has only issued restricted stock units under the 2007 Plan. The following summarizes the restricted stock units activity under the 2007 Plan during 2013:

	Number of Restricted Stock Units (in thousands)	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at December 29, 2012	350	\$5.62
Granted	8	\$5.45
Vested	-	N/A
Forfeited or expired	(30)	\$5.62
Outstanding non-vested at September 28, 2013	328	\$5.62

Based on the closing price of the Company's common stock of \$6.04 per share on September 28, 2013, the intrinsic value of the non-vested restricted stock units at September 28, 2013 was approximately \$2.0 million. As of September 28, 2013, there was approximately \$1.1 million of total unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted-average period of approximately 25.5 months.

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 June 30, 2013) was 31,695. As of September 28, 2013, there were 189,576 shares available for issuance under the Purchase Plan.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
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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 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 thirty-nine week period ended September 28, 2013, the Company repurchased 15,450 shares for an average price of \$5.35 per share. Since the inception of its share repurchase program and through September 28, 2013, the Company has purchased 1,473,306 shares at a total cost of approximately \$7.5 million, or an average price of \$5.09. The last repurchase occurred in January 2013 whereby the entire authorized repurchase amount of \$7.5 million was expended.

13. New Accounting Standards

There have been no recent accounting pronouncements or changes in accounting pronouncements during the thirty-nine week period ended September 28, 2013, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012, 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 reportable 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 29, 2012).

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 reportable segments consistent with the Company’s management system:

Thirteen Week Period Ended September 28, 2013	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	\$13,156	\$22,000	\$6,164	\$ -	\$41,320
Cost of services	9,649	16,660	4,327	-	30,636
Selling, general and administrative	3,292	3,410	1,897	-	8,599
Depreciation and amortization	66	187	26	-	279
Operating income (loss)	\$149	\$1,743	(\$86)	\$ -	\$1,806
Total assets	\$14,106	\$45,525	\$12,507	\$17,818	\$89,956
Capital expenditures	-	\$226	-	-	\$226

Thirteen Week Period Ended September 29, 2012	Information Technology	Engineering	Specialty 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

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Total assets	\$13,944	\$30,148	\$9,088	\$35,562	\$88,742
Capital expenditures	\$9	\$107	\$ -	\$23	\$139

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
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## 14. Segment Information (Continued)

Thirty-Nine Week Period Ended September 28, 2013	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	\$41,378	\$63,263	\$20,288	\$ -	\$124,929
Cost of services	29,706	48,562	14,094	-	92,362
Selling, general and administrative (Includes facilities consolidation charge)	10,404	10,840	5,460	-	26,704
Depreciation and amortization	236	509	84	-	829
Operating income	\$1,032	\$3,352	\$650	\$ -	\$5,034
Total assets	\$14,106	\$45,525	\$12,507	\$17,818	\$89,956
Capital expenditures	\$57	\$859	\$4	\$151	\$1,071
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



RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
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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. Revenues by geographic area for the thirteen and thirty-nine week periods ended September 28, 2013 and September 29, 2012 are as follows:

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Revenues				
U. S.	\$30,991	\$28,118	\$96,558	\$90,871
Canada	8,980	5,308	24,429	14,504
Puerto Rico	1,349	1,413	3,942	3,423
	\$41,320	\$34,839	\$124,929	\$108,798

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

	September 28, 2013	December 29, 2012
Total assets		
U. S.	\$65,363	\$68,364
Canada	23,238	14,612
Puerto Rico	1,355	1,572
	\$89,956	\$84,548

15. Income Taxes

The Company reduced an unrecognized tax benefit of \$0.5 million during the thirty-nine week period ended September 28, 2013. Before considering this discreet adjustment, the projected fiscal 2013 effective income tax rate as of September 28, 2013 was approximately 41.3% and 28.2% in the United States and Canada, respectively, and yielded a consolidated effective income tax rate of approximately 39.3% for the thirty-nine week period ended September 28, 2013. The Company estimated income tax rates of approximately 42.9% and 26.8% in the United States and Canada, respectively, which yielded a consolidated effective income tax rate of approximately 43.9% for the thirty-nine week period ended September 29, 2012. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the company.



RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
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16. Contingencies

From time to time, the Company is a defendant or plaintiff in various legal actions that 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 \$0.1 million and \$0.2 million as of September 28, 2013 and December 29, 2012, respectively. Asserted claims in these matters seek approximately \$9.7 million in damages as of September 28, 2013.

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.

17. Stockholder Rights Plan

On January 30, 2013, the Board of Directors of the Company approved a stockholder rights plan (the "Rights Plan") and declared a dividend distribution to stockholders of record as of the close of business on February 10, 2013 of one preferred stock purchase right (a "Right") for each outstanding share of Common Stock of the Company. Each Right entitles the holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Unit") of a newly-authorized series of junior participating preferred stock of the Company, upon the occurrence of certain events, at a purchase price of \$15.00 per Unit.

In connection with the adoption of the stockholder rights plan, the Company designated 250,000 shares of the Company's authorized shares of Preferred Stock, par value \$1.00, as Series A-2 Junior Participating Preferred Shares, none of which are issued and outstanding. As provided in the Certificate of Designation filed by the Company with the Department of State of the State of Nevada, each Series A-2 Preferred Share shall entitle the holder 100 votes on all matters submitted to a vote of the stockholders of the Corporation, subject to adjustment for future dividends and combinations of common stock. The holders of Series A-2 Preferred Shares and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation. The Series A-2 Preferred Shares shall, after issuance, be entitled to receive quarterly dividends in an amount equal to the greater of \$50.00 per share or an amount per share, subject to adjustment, equal to 100 times the aggregate per share amount of all non-cash dividends or other distributions other than a dividend payable in shares of common stock or a subdivision of the outstanding shares of common stock declared on the common stock since the immediately preceding quarterly dividend payment date of the Series A-2 Preferred Shares, or, with respect to the first such quarterly dividend payment date, since the first issuance of any share or fraction of a share of the Series A-2 Preferred Shares. The Series A-2 Preferred Shares shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise. The Series A-2 Preferred Shares shall not be redeemable. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of Series A-2 Preferred Shares shall be entitled to receive the greater of \$100.00 per share, plus accrued dividends, or an amount per share, subject to adjustment, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock. In the event the Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged

for or changed into other stock or securities, cash and/or any other property, then in any such event the Series A-2 Preferred Shares shall at the same time be similarly exchanged or changed in an amount per share, subject to adjustment, equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. These preferences are protected by customary anti-dilution provisions.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
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17. Stockholder Rights Plan (Continued)

Initially, the Rights are not exercisable and are attached to each existing outstanding share of the Company's Common Stock. The Rights will separate and become exercisable if a person or group acquires 15% or more of the Company's Common Stock in a transaction, including the open market purchase of shares, not approved by our Board. If a person or group acquires 15%, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's exercise price (subject to adjustment as provided in the Rights Plan), a number of shares of the Company's Common Stock having a then-current market value of twice the exercise price. The Rights Plan will cause substantial dilution to a person or group that attempts to acquire control of the Company on terms or in a manner not approved by our Board.

The initial issuance of the Rights as a dividend had no financial accounting or reporting impact. The fair value of the Rights was nominal because the Rights were not exercisable when issued and no value is attributable to them. Additionally, the Rights do not meet the definition of a liability under generally accepted accounting principles in the United States and are therefore not accounted for as a long-term obligation. Accordingly, unless the Rights become exercisable as discussed above, the Rights Plan has no impact on the Company's Consolidated Financial Statements.

On May 28, 2013, our Board approved the amendment and restatement of the Rights Plan for the primary purpose of incorporating a stockholder redemption feature (qualifying offer clause) providing that if the Company receives a Qualifying Offer (as defined in the Rights Plan, as amended and restated) and our Board has not redeemed the outstanding Rights or exempted such offer from the terms of the Rights Plan, as amended and restated, or called a special meeting of stockholders for the purpose of voting on whether or not to exempt such Qualifying Offer from the terms of the Rights Plan, as amended and restated, in each case by the end of the ninety (90) business days following the commencement of such Qualifying Offer, the holders of 10 percent of the common stock may call a special meeting of stockholders to vote on a resolution authorizing the redemption of all, but not less than all, of the then outstanding Rights at the Redemption Price (as defined in the Rights Plan, as amended and restated).

The Rights Plan is not intended to interfere with any merger, tender or exchange offer or other business combination approved by our Board. Nor does the Rights Plan prevent our Board from considering any offer that it considers to be in the best interest of its stockholders.

18. Facilities Consolidation Charge

In early fiscal 2013 the Company's Canadian operations elected to consolidate its Mississauga location into its expanded Pickering location. In addition to customary moving expenses the Company incurred severance costs as several employees elected to receive statutory mandated severance payments as opposed to relocating their place of work. The Company incurred \$0.3 million in costs related to the office consolidation for the thirty-nine weeks ended September 28, 2013 which primarily consisted of severance and other related costs.

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 strategic and 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 amounts of deferred consideration and earnout payments to become payable to former shareholders of acquired businesses; (v) 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; (vi) the Company's ability to obtain financing on satisfactory terms; (vii) the reliance of the Company upon the continued service of its executive officers; (viii) the Company's ability to remain competitive in the markets that it serves; (ix) the Company's ability to maintain its unemployment insurance premiums and workers compensation premiums; (x) the risk of claims being made against the Company associated with providing temporary staffing services; (xi) the Company's ability to manage significant amounts of information and periodically expand and upgrade its information processing capabilities; (xii) the Company's ability to remain in compliance with federal and state wage and hour laws and regulations; (xiii) uncertainties in predictions as to the future need for the Company's services; (ix) uncertainties relating to the allocation of costs and expenses to each of the Company's operating segments; (xv) the costs of conducting and the outcome of litigation involving the Company, and the applicability of insurance coverage with respect to any such litigation; (xvi) the results of, and costs relating to, interactions with shareholders of the Company who may pursue specific initiatives with respect to the Company's governance and strategic direction, including without limitation a contested proxy solicitation initiated by such shareholders; and (xvii) 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. Except as required by law, 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 an increase in revenues during the thirty-nine week period ended September 28, 2013 as compared to the comparable prior year period. The revenue increase was primarily attributable to growth in the Company's Engineering segment offset by decreases in the Company's Specialty Health Care segment, as further discussed in the Segment Discussion below. The Specialty Health Care segment did however experience 15.8% growth in revenues in the third quarter of fiscal 2013 as compared to the third quarter of fiscal 2012. The Company is optimistic that overall results for the remaining quarter of fiscal 2013 should remain favorable.

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.

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.



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

### Overview (Continued)

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 at the time certain milestones are reached, as defined in the contract. Revenues under these arrangements are recognized as the costs on these contracts are incurred. Amounts invoiced in excess of revenues recognized are recorded as deferred revenue, included in accounts payable and accrued expenses on the accompanying balance sheets. 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 specified 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 costs are deferred. The associated costs are expensed when the related revenue is recognized.



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. In certain circumstances, the Company may acquire equipment as a purchasing agent for the client for a fee. Pursuant to these agreements, the Company may: a) engage subcontractors to provide construction or other services or contracts with manufacturers on behalf of the Company's clients to procure equipment or fixtures; b) typically earns a fixed percentage of the total project value or a negotiated mark-up on subcontractor or procurement charges 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 subcontractor/procurement costs or transit costs. In those situations, the Company charges the client a negotiated 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 service fee. During the thirty-nine week period ended September 28, 2013, total gross billings, including both transit cost billings and the Company's earned fees, was \$57.7 million, for which the Company recognized \$20.4 million of its net fee as revenue. During the thirty-nine week period ended September 29, 2012, 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 fee as revenue.

Under the terms of the agreements, the Company is typically 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. The Company's transit accounts payable generally exceeds the Company's transit accounts receivable but absolute amounts and spreads fluctuate significantly from quarter to quarter in the normal course of business. The transit accounts receivable was \$5.4 million and related transit accounts payable was \$5.8 million, a net liability of \$0.4 million, as of September 28, 2013.

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 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 and Restricted Stock Units

The Company uses stock options and restricted stock units 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 or liability instruments issued. The Company measures stock-based compensation cost using the Black-Scholes option pricing model for stock options and the fair value of the underlying common stock at the date of grant for restricted stock units.

### Insurance Liabilities

The Company has risk participation arrangements with respect to workers compensation and health care insurance. The Company establishes loss provisions based on historical experience and in the case of expected losses from workers compensation, considers input from third parties. 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 28, 2013, the Company had domestic short term deferred tax assets of \$0.5 million, total domestic long term net deferred income tax assets of \$1.8 million and foreign short-term deferred 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 made in prior periods. 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 2008. 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.

During the thirty-nine week period ended September 28, 2013, the Company reduced an unrecognized tax benefit of \$0.5 million due to the expiration of the statute of limitations on such item. There were no changes to unrecognized tax benefits during the comparable prior year period.

### 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 28, 2013 Compared to Thirteen Week Period Ended September 29, 2012

A summary of operating results for the thirteen week periods ended September 28, 2013 and September 29, 2012 is as follows (in thousands):

	September 28, 2013		September 29, 2012	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	\$41,320	100.0	\$34,839	100.0
Cost of services	30,636	74.1	25,164	72.2
Gross profit	10,684	25.9	9,675	27.8
Selling, general and administrative	8,599	20.8	8,153	23.5
Depreciation and amortization	279	0.7	415	1.1
	8,878	21.5	8,568	24.6
Operating income	1,806	4.4	1,107	3.2
Other expense, net	(4)	-	(12)	0.0
Income before income taxes	1,802	4.4	1,095	3.2
Income tax expense	660	1.6	461	1.3
Net income	\$1,142	2.8	\$634	1.9

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarters ended September 28, 2013 and September 29, 2012 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 28, 2013 Compared to Thirteen Week Period Ended September 29, 2012  
(Continued)

**Revenues.** Revenues increased 18.6%, or \$6.5 million, for the thirteen week period ended September 28, 2013 as compared to the thirteen week period ended September 29, 2012 (the "comparable prior year period"). Revenues increased \$0.8 million in the Information Technology segment, \$4.9 million in the Engineering segment, and \$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 21.7%, or \$5.5 million, for the thirteen week period ended September 28, 2013 as compared to the comparable prior year period. The increase in cost of services was primarily due to an increase in revenues. Cost of services as a percentage of revenues increased to 74.1% for the thirteen week period ended September 28, 2013 from 72.2% 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 in the Engineering and Information Technology segments and an increase in the cost of services as a percentage of revenues in the Company's Specialty Health Care segment. See Segment Discussion for further information regarding changes in cost of services as a percentage of revenues.

**Selling, General and Administrative.** Selling, general and administrative ("SGA") expenses increased 5.5%, or \$0.5 million, for the thirteen week period ended September 28, 2013 as compared to the comparable prior year period. The increase in SGA expense was primarily due to investment in personnel and infrastructure necessary to support higher revenues. As a percentage of revenues, SGA expenses were 20.8% for the thirteen week period ended September 28, 2013 as compared to 23.5% for the comparable prior year period. SGA expense as a percentage of revenues decreased due to the increase in revenues.

**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 and any other non-operating items incurred from time to time.

**Income Tax Expense.** The Company recognized \$0.7 million of income tax expense for the thirteen week period ended September 28, 2013 as compared to \$0.5 million for the comparable prior year period. The consolidated effective income tax rate for the current period was 36.6% as compared to 42.1% for the comparable prior year period. The projected fiscal 2013 effective income tax rate as of September 28, 2013 was approximately 41.3% and 28.2% in the United States and Canada, respectively. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company. The consolidated effective income tax rate decreased for the thirteen week period ended September 28, 2013 as compared to the comparable prior year period because the Company's Canadian income before taxes increased as a percentage of total income before taxes.

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

Thirteen Week Period Ended September 28, 2013 Compared to Thirteen Week Period Ended September 29, 2012  
(Continued)

Segment Discussion

Information Technology

Information Technology revenues of \$13.2 million in the thirteen week period ended September 28, 2013 increased \$0.8 million, or 6.3%, as compared to the comparable prior year period. The Company believes the increase in revenue was primarily attributable to the impact of changes made to the management and sales teams in late 2011 and early 2012 and improved market conditions. The Information Technology segment operating income was \$0.1 million for the thirteen week period ended September 28, 2013 as compared to \$0.2 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. The increase in cost of services as a percentage of revenues was primarily due to a decrease in higher margin project work.

Engineering

Engineering revenues of \$22.0 million in the thirteen week period ended September 28, 2013 increased \$4.9 million, or 28.3%, as compared to the comparable prior year period. The increase was primarily due to an increase in revenues of \$3.6 million in the Company's Canadian Engineering group. The Engineering segment operating income was \$1.7 million for the thirteen week period ended September 28, 2013 as compared to \$0.9 for the comparable prior year period. Operating income increased primarily due to the increase in revenues, partially offset by an increase in SGA expense of \$0.3 million and an increase in costs of services as a percentage of revenues. SGA expenses increased primarily due to increased investment in the Company's Canadian Engineering division and the Technical Publications group as both have experienced increased demand for their services. Additionally, the Engineering segment experienced a higher allocation of corporate SGA expense due to increased revenues. Cost of services as a percentage of revenues primarily increased due to a large fixed priced contract with costs that exceeded estimates.

Specialty Health Care

Specialty Health Care revenues of \$6.2 million in the thirteen week period ended September 28, 2013 increased \$0.8 million, or 15.8%, as compared to the comparable prior year period. The increase in revenues was primarily due to an increase of \$1.1 million from the Specialty Health Care's office in Honolulu offset by a decrease of \$0.4 million from the Specialty Health Care's largest client. The Specialty Health Care segment experienced an operating loss of \$0.1 million for the thirteen week period ended September 28, 2013 as compared to a small operating loss for the comparable prior year period. The decrease in operating income was due primarily to an increase in cost of services as a percentage of revenues, partially offset by lower allocations of corporate SGA expense. Cost of services as a percentage of revenues increased to 70.2% from 67.2% for the comparable prior year period. The increase was primarily due to a tightening of the labor supply in the Specialty Health Care's core markets and the segment's geographic expansion efforts which have garnered lower gross profit margins than the segment has typically achieved in its primary geographic region.



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

Thirty-Nine Week Period Ended September 28, 2013 Compared to Thirty-Nine Week Period Ended September 29, 2012

A summary of operating results for the thirty-nine week periods ended September 28, 2013 and September 29, 2012 is as follows (in thousands):

	September 28, 2013		September 29, 2012	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	\$124,929	100.0	\$108,798	100.0
Cost of services	92,362	73.9	79,182	72.8
Gross profit	32,567	26.1	29,616	27.2
Selling, general and administrative	26,361	21.1	24,766	22.8
Facilities consolidation charge	343	0.3	-	0.0
Depreciation and amortization	829	0.7	953	0.8
	27,533	22.1	25,719	23.6
Operating income	5,034	4.0	3,897	3.6
Other income, net	74	0.1	18	0.0
Income before income taxes	5,108	4.1	3,915	3.6
Income tax expense	1,536	1.2	1,718	1.6
Net income	\$3,572	2.9	\$2,197	2.0

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The reporting periods ended September 28, 2013 and September 29, 2012 consisted of thirty-nine weeks each.

**Revenues.** Revenues increased 14.8%, or \$16.1 million, for the thirty-nine week period ended September 28, 2013 as compared to the thirty-nine week period ended September 29, 2012 (the "comparable prior year period"). Revenues increased \$1.9 million in the Information Technology segment, and \$14.7 million in the Engineering segment, and decreased \$0.5 million in the Specialty Health Care segment. See Segment Discussion for further information on revenue changes.

**Cost of Services.** Cost of services increased 16.6%, or \$13.2 million, for the thirty-nine week period ended September 28, 2013 as compared to the comparable prior year period. The increase in cost of services was primarily due to an increase in revenues. Cost of services as a percentage of revenues increased to 73.9% for the thirty-nine week period ended September 28, 2013 from 72.8% 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 for both the Company's Information Technology and Engineering segments, higher non-billable labor expenses associated with the Engineering segment's Canadian Engineering division and Facilities Design group and an increase in the cost of services as a percentage of revenues in the Company's Specialty Health Care segment. See Segment Discussion for further information regarding changes in cost of services as a percentage of revenues.

Selling, General and Administrative. SGA expenses increased 6.4%, or \$1.6 million, for the thirty-nine week period ended September 28, 2013 as compared to the comparable prior year period. The increase in SGA expense was due to the operations acquired in the BGA acquisition which added approximately \$0.8 million in SGA expense, an increase in professional fees of \$0.3 million which primarily relates to a potential contested proxy fight and increased investments in personnel and infrastructure necessary to support higher revenues. As a percentage of revenues, SGA expenses were 21.1% for the thirty-nine week period ended September 28, 2013 as compared to 22.8% for the comparable prior year period. SGA expense as a percentage of revenues decreased due to the increase in revenues.

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

Thirty-Nine Week Period Ended September 28, 2013 Compared to Thirty-Nine Week Period Ended September 29, 2012 (Continued)

**Facilities Consolidation Charge.** In early fiscal 2013 the Company's Canadian operations elected to consolidate its Mississauga location into its expanded Pickering location. In addition to customary moving expenses the Company incurred severance costs as several employees elected to receive statutory mandated severance payments as opposed to relocating their place of work. The Company incurred \$0.3 million in costs related to the office consolidation for the thirteen weeks ended September 28, 2013 which primarily consisted of severance and other related costs.

**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 and any other non-operating items incurred from time to time.

**Income Tax Expense.** The Company recognized \$1.5 million of income tax expense for the thirty-nine week period ended September 28, 2013 as compared to \$1.7 million for the comparable prior year period. Income tax expense for the thirty-nine week period ended September 28, 2013 reflects a reduction by \$0.5 million resulting from a reduction in a previously unrecognized tax benefit ("discrete adjustment"). The consolidated effective income tax rate for the current period prior to the impact of the discrete adjustment was 39.3% as compared to 43.9% for the comparable prior year period. The projected fiscal 2013 effective income tax rate as of September 28, 2013 was approximately 41.3% and 28.2% in the United States and Canada, respectively. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company. The consolidated effective income tax rate decreased for the thirty-nine week period ended September 28, 2013 as compared to the comparable prior year period because the Company's Canadian income before taxes increased as a percentage of total income before taxes.

### Segment Discussion

#### Information Technology

Information Technology revenues of \$41.4 million in the thirty-nine week period ended September 28, 2013 increased \$1.9 million, or 4.7%, as compared to the comparable prior year period. The Company believes the increase in revenue was primarily attributable to the impact of changes made to the management and sales teams in late 2011 and early 2012 and improved market conditions. The Information Technology segment operating income was \$1.0 million for the thirty-nine week period ended September 28, 2013 as compared to \$0.7 million in the comparable prior year period. The increase in operating income was primarily due to an increase in revenues.

#### Engineering

Engineering revenues of \$63.3 million in the thirty-nine week period ended September 28, 2013 increased \$14.7 million, or 30.4%, as compared to the comparable prior year period. The increase was primarily due to an increase in revenues of \$9.7 million in the Company's Canadian Engineering group and the BGA acquisition which contributed an increase in revenues of \$3.6 million. The Engineering segment operating income was \$3.4 million for the thirty-nine week period ended September 28, 2013 as compared to \$2.2 million for the comparable prior year period. Operating income increased primarily due to the substantial increase in revenues and was offset by an increase in SGA expense of \$2.2 million and an increase in cost of services as a percentage of revenues. SGA expenses increased primarily due to the BGA acquisition, which contributed \$0.8 million, as well as increased investment in the Company's Canadian



Engineering division and the Technical Publications group as both have experienced increased demand for their services. The Company's decision to consolidate its two Canadian offices also had a significant impact on SGA expense during the thirty-nine week period ended September 28, 2013. Additionally, the Engineering segment experienced a higher allocation of corporate SGA expense due to increased revenues. Cost of services as a percentage of revenues primarily increased due to a large fixed priced contract with costs that exceeded estimates.

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

Thirty-Nine Week Period Ended September 28, 2013 Compared to Thirty-Nine Week Period Ended September 29, 2012 (Continued)

Segment Discussion (Continued)

Specialty Health Care

Specialty Health Care revenues of \$20.3 million in the thirty-nine week period ended September 28, 2013 decreased \$0.5 million, or 2.2%, as compared to the comparable prior year period. The primary reason for the decline in the revenues of the Specialty Health Care segment were decreases of approximately \$1.7 million from its largest client and a \$0.7 million from its second largest client that were partially offset by an increase in revenues from the segment's Honolulu office of \$1.8 million. The Specialty Health Care's operating income for the thirty-nine week period ended September 28, 2013 was \$0.7 million as compared to \$1.0 million for the comparable prior year period. The decrease in operating income was due primarily to the reduction in revenues and an increase in cost of services as a percentage of revenues, partially offset by lower allocations of corporate SGA expense. Cost of services as a percentage of revenues increased to 69.5% from 68.1% for the comparable prior year period. The increase was primarily due to a tightening of the labor supply in the Specialty Health Care's core markets and the segment's geographic expansion efforts which have garnered lower gross profit margins than the segment has typically achieved in its primary geographic region.

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 28, 2013	September 29, 2012
Cash provided by (used in):		
O p e r a t i n g activities	\$740	\$7,448
I n v e s t i n g activities	(\$1,030)	(\$1,651)
F i n a n c i n g activities	\$274	(\$3,983)

Operating Activities

Operating activities provided \$0.7 million of cash for the thirty-nine week period ended September 28, 2013 as compared to \$7.4 million in the comparable prior year period. The major components of the cash used in operating activities in the thirty-nine week period ended September 28, 2013 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 28, 2013 was \$3.6 million as compared to \$2.2 million for the comparable prior year period. An increase in accounts receivables in the thirty-nine week period ended September 28, 2013 used \$11.1 million as compared to providing \$0.9 million in the comparable prior year period. The Company primarily attributes the increase in accounts receivables for the thirty-nine week period ended September 28, 2013 to an increase in revenues as compared to levels in the second half of fiscal 2012. Additionally, the Company has experienced an increase in its accounts receivable relative to revenue levels. The Company believes that the ratio of accounts receivables to revenues will improve over the next several quarters.

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

Liquidity and Capital Resources (Continued)

Operating Activities (Continued)

The Company's transit accounts payable generally exceeds the Company's transit accounts receivable, but absolute amounts and differences fluctuate significantly from quarter to quarter in the normal course of business. The net of excess transit accounts payable over transit accounts receivable decreased from \$1.9 million as of December 31, 2012 to \$0.4 million as of September 28, 2013, thereby using \$1.5 million in cash for the thirty-nine week period ended September 28, 2013. The net of excess transit accounts payable over transit accounts receivable increased from zero as of December 29, 2011 to \$0.6 million as of September 29, 2012, thereby providing \$0.6 million in cash for the thirty-nine week period ended September 29, 2012.

An increase in accounts payable and accrued expenses provided \$5.2 million as compared to using \$0.2 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 28, 2013 provided \$1.8 million as compared to providing \$1.9 million in the comparable prior year period.

Investing Activities

Investing activities used cash of \$1.0 million for the thirty-nine week period ended September 28, 2013 as compared to using \$1.7 million in the comparable prior year period. The primary reason for the decrease was that in the comparable prior year period the Company paid \$1.3 million in cash for the BGA acquisition and had no such expenditure in the current year, which decrease in cash used was offset by an increase to property and equipment acquired of \$0.8 million for the thirty-nine week period ended September 28, 2013 as compared to the comparable prior year period. The primary reasons for the increase in property and equipment acquired are due to investments in the Company's growing Engineering segment of \$0.9 million and a corporate ADP payroll system implementation which cost \$0.2 million. The Company's Engineering segment invested \$0.3 million in software and licenses, \$0.3 million in computer equipment and \$0.2 million in furniture and leasehold improvements for expanded facilities. The Company anticipates enhancing its financial reporting and accounting system platform sometime in 2014 and, as a result, it may see a significant rise in expenditures for property and equipment.

Financing Activities

Financing activities provided \$0.3 million of cash for the thirty-nine week period ended September 28, 2013 as compared to using \$4.0 million of cash in the comparable prior year period. The primary use of cash was \$0.1 million for the Company's share repurchase program as compared to \$4.4 million in the comparable prior year period. The Company generated cash of \$0.4 million from the sale of stock through its employee stock purchase plan and stock option plans for both the thirty-nine week period ended September 28, 2013 and 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 a covenant that restricts on the Company's ability to borrow in order to pay dividends. Since the Company did not borrow in order to fund the dividend paid on December 29, 2012, the Company did not require any waiver of any covenant under its Revolving Credit Facility.

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

Liquidity and Capital Resources (Continued)

Financing Activities (Continued)

There were no borrowings during the thirty-nine week periods ended September 28, 2013 and September 29, 2012. At September 28, 2013 and December 31, 2012, there were letters of credit outstanding for \$0.8 million. At September 28, 2013, the Company had availability for additional borrowings under the Revolving Credit Facility of \$14.2 million.

As of September 28, 2013, \$1.6 million of the \$14.0 million (on the Consolidated Balance Sheet) of cash and cash equivalents was held by foreign subsidiaries, approximately \$1.4 million in Canadian dollars and the balance of approximately \$0.2 million held in U.S. dollars.

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, 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. The Company has acquired numerous companies throughout its history and those acquisitions have generally included significant future contingent consideration. 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.

The Company does not currently have material commitments for capital expenditures. However, the Company anticipates that it will enhance its current financial reporting and accounting system platform sometime in 2014. 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 2020. 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
2013 (after September 28, 2013)	\$817
2014	2,502

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2015	2,138
2016	1,355
2017	1,015
Thereafter	1,396
Total	\$9,223

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

### Liquidity and Capital Resources (Continued)

#### Future Contingent Payments

As of September 28, 2013, the Company had one active acquisition agreement. Effective July 1, 2012 the Company acquired certain assets of BGA as more fully described in Footnote 6 in the Consolidated Financial Statements. The Company estimates future contingent payments as follows (in thousands):

Period Ending	
December 28, 2013 (after September 28, 2013)	\$313
January 3, 2015	253
January 2, 2016	269
December 31, 2016	307
Estimated Future Contingent Payments	\$1,142

Actual future contingent payments may materially differ from the estimates above. Future contingent payments to be made to BGA are capped at a maximum of \$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 28, 2013, 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 29, 2012, as updated in the Company's Quarterly Report for the fiscal quarter ended September 28, 2013.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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: October 31,  
2013

By: /s/ Leon Kopyt

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

Date: October 31,  
2013

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: October 31, 2013

/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: October 31, 2013

/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 28, 2013 (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: October 31, 2013

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 28, 2013 (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: October 31, 2013

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