

RCM TECHNOLOGIES INC  
Form 10-Q  
May 11, 2010

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 April 3, 2010

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 Jurisdiction of (I.R.S. Employer 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 company" in Rule 12b-2 of the Exchange Act). (Check one):

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|                          |                          |                          |                                     |
|--------------------------|--------------------------|--------------------------|-------------------------------------|
| 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, 12,999,178 shares outstanding as of May 11, 2010.

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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

April 3, 2010 and January 2, 2010

(In thousands, except share and per share amounts)

|  | April 3,<br>2010<br>(Unaudited) | January 2,<br>2010 |
|--|---------------------------------|--------------------|
| Current assets:  |                                 |                    |
| Cash and cash equivalents  | \$12,252                        | \$10,942           |
| Accounts receivable, net   | 50,159                          | 45,958             |
| Prepaid expenses and other current assets  | 3,615                           | 2,638              |
| Deferred income tax assets   | 705                             | 705                |
| Assets of discontinued operations  | 174                             | 672                |
| Total current assets   | 66,905                          | 60,915             |
| Property and equipment, net  | 4,170                           | 4,548              |
| Other assets:  |                                 |                    |
| Deposits   | 172                             | 194                |
| Goodwill   | 8,260                           | 8,260              |
| Intangible assets, net   | 429                             | 464                |
| Deferred income tax assets   | 3,828                           | 3,828              |
| Total other assets   | 12,689                          | 12,746             |
| Total assets   | \$83,764                        | \$78,209           |
| Current liabilities:   |                                 |                    |
| Accounts payable and accrued expenses  | \$8,574                         | \$7,246            |
| Accrued payroll and related costs  | 8,619                           | 6,410              |
| Income taxes payable   | 30                              | -                  |
| Liabilities of discontinued operations   | 373                             | 357                |
| Total current liabilities  | 17,596                          | 14,013             |
| Contingent consideration   | 893                             | 893                |
| Stockholders' equity:  |                                 |                    |
| Preferred stock, \$1.00 par value; 5,000,000 shares authorized;<br>no shares issued or outstanding   | -                               | -                  |
| Common stock, \$0.05 par value; 40,000,000 shares authorized;<br>12,999,178 and 12,960,778 shares issued<br>and outstanding<br>at April 3, 2010 and January 2, 2010,<br>respectively | 650                             | 648                |
| Additional paid-in capital   | 107,398                         | 107,262            |

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|  |          |          |
|--|----------|----------|
| Accumulated other comprehensive income     | 1,329    | 1,267    |
| Accumulated deficit                        | (44,102) | (45,874) |
| Total stockholders' equity                 | 65,275   | 63,303   |
| Total liabilities and stockholders' equity | \$83,764 | \$78,209 |

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

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
Thirteen Week Periods Ended April 3, 2010 and March 28, 2009  
(Unaudited)  
(In thousands, except per share amounts)

|   | Thirteen Week Periods<br>Ended |                      |
|---|--------------------------------|----------------------|
|   | April 3,<br>2010               | March<br>28,<br>2009 |
| Revenues  | \$49,056                       | \$46,657             |
| Cost of services  | 36,364                         | 36,089               |
| Gross profit  | 12,692                         | 10,568               |
| Operating costs and expenses                            |                                |                      |
| Selling, general and administrative                     | 10,305                         | 10,516               |
| Depreciation and amortization                           | 350                            | 360                  |
|   | 10,655                         | 10,876               |
| Operating income (loss) from continuing operations      | 2,037                          | (308)                |
| Other (expense) income                                  |                                |                      |
| Interest expense, net and other                         | (38)                           | (20)                 |
| Loss on foreign currency transactions                   | (7)                            | (10)                 |
| Legal settlement  | -                              | 9,750                |
|   | (45)                           | 9,720                |
| Income from continuing operations before income taxes   | 1,992                          | 9,412                |
| Income tax (benefit) expense from continuing operations | (412)                          | 3,775                |
| Net income from continuing operations                   | 2,404                          | 5,637                |
| Loss from discontinued operations, net of tax benefit   | (632)                          | (84)                 |
| Net income  | \$1,772                        | \$5,553              |
| Basic and diluted net earnings per share data:          |                                |                      |
| Net income from continuing operations                   | \$0.18                         | \$0.44               |
| Loss from discontinued operations, net of tax benefit   | (\$0.04)                       | (\$0.01)             |

|            |        |        |
|------------|--------|--------|
| Net income | \$0.14 | \$0.43 |
|------------|--------|--------|

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

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
 Thirteen Week Period Ended April 3, 2010  
 (Unaudited)  
 (In thousands, except share amounts)

|  | Common Stock<br>Shares | Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Accumulated<br>Deficit | Total    |
|--|------------------------|-----------------|----------------------------------|---|------------------------|----------|
| Balance, January 2, 2010                                   | 12,960,778             | \$648           | \$107,262                        | \$1,267   | (\$45,874)             | \$63,303 |
| Issuance of stock under<br>employee<br>stock purchase plan | 38,400                 | 2               | 71                               | -   | -                      | 73       |
| Translation adjustment                                     | -                      | -               | -                                | 62  | -                      | 62       |
| Stock based compensation<br>expense                        | -                      | -               | 65                               | -   | -                      | 65       |
| Net income   | -                      | -               | -                                | -   | 1,772                  | 1,772    |
| Balance, April 3, 2010                                     | 12,999,178             | \$650           | \$107,398                        | \$1,329   | (\$44,102)             | \$65,275 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 Thirteen Week Periods Ended April 3, 2010 and March 28, 2009  
 (Unaudited)  
 (In thousands)

|  | April<br>3,<br>2010 | March<br>28,<br>2009 |
|--|---------------------|----------------------|
| Thirteen Week Periods<br>Ended             | 2010                | 2009                 |
| Net income                                 | \$1,772             | \$5,553              |
| Foreign currency<br>translation adjustment | 62                  | (64)                 |
| Comprehensive income                       | \$1,834             | \$5,489              |

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

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Thirteen Week Periods Ended April 3, 2010 and March 28, 2009  
(Unaudited)  
(In thousands)

|  | April 3,<br>2010 | March<br>28,<br>2009 |
|--|------------------|----------------------|
| Cash flows from operating activities:  |                  |                      |
| Net income   | \$1,772          | \$5,553              |
| Adjustments to reconcile net income to net cash provided by<br>operating activities: |                  |                      |
| Depreciation and amortization  | 377              | 381                  |
| Loss on disposal of fixed assets   | 269              | -                    |
| Stock-based compensation expense   | 65               | 93                   |
| Provision for losses on accounts receivable  | 134              | 228                  |
| Deferred income tax (benefit) expense  | -                | 2,292                |
| Changes in assets and liabilities:   |                  |                      |
| Accounts receivable  | (3,952)          | 4,308                |
| Prepaid expenses and other current<br>assets   | (1,063)          | 482                  |
| Accounts payable and accrued<br>expenses   | 1,330            | (1,001)              |
| Accrued payroll and related costs  | 2,106            | (2,779)              |
| Income taxes payable   | 190              | (204)                |
| Total adjustments  | (544)            | 3,800                |
| Net cash provided by operating activities  | 1,228            | 9,353                |
| Cash flows from investing activities:  |                  |                      |
| Property and equipment acquired  | (13)             | (255)                |
| Decrease in deposits   | 20               | 37                   |
| Net cash provided by (used in) investing activities                                  | 7                | (218)                |
| Cash flows from financing activities:  |                  |                      |
| Sale of stock for employee stock purchase plan                                       | 73               | 37                   |
| Net repayments on line of credit   | -                | (4,900)              |
| Net cash provided by (used in) financing activities                                  | 73               | (4,863)              |
| Effect of exchange rate changes on cash and cash equivalents                         | 2                | (24)                 |
| Increase in cash and cash equivalents  | 1,310            | 4,248                |
| Cash and cash equivalents at beginning of period                                     | 10,942           | 815                  |
| Cash and cash equivalents at end of period   | \$12,252         | \$5,063              |
| Supplemental cash flow information:  |                  |                      |

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Cash paid for:

|              |       |         |
|--------------|-------|---------|
| Interest     | \$51  | \$67    |
| Income taxes | \$483 | \$1,003 |

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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 January 2, 2010 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) necessary for a fair presentation of financial position, results of operations and cash flows for such interim periods.

Results for the thirteen week period ended April 3, 2010 are not necessarily indicative of results that may be expected for the full year.

In March 2010, the Company closed its Oracle business unit located in southern California. The closed business unit sold Oracle software applications and provided implementation, hosting and maintenance services for the suite of Oracle and related software applications. See Note 17 to the Consolidated Financial Statements included in this report for further details of this discontinued operation.

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 January 2, 2010 was a 53-week reporting year. The first fiscal quarter of 2010, the 2009 fiscal year and the first fiscal quarter of 2009 ended on the following dates, respectively:

| Period Ended    | Weeks in Quarter | Weeks in Year to Date |
|-----------------|------------------|-----------------------|
| March 28, 2009  | Thirteen         | Thirteen              |
| January 2, 2010 | Thirteen         | Fifty-Three           |
| April 3, 2010   | Thirteen         | Thirteen              |

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. 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.

The Company's carrying value of financial instruments, consisting primarily of accounts receivable, approximates fair value due to their liquidity or their short-term nature. The Company does not have any off-balance sheet financial instruments. 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:

|   | April 3, | January  |
|---|----------|----------|
|   | 2010     | 2010     |
| Billed  | \$39,892 | \$37,099 |
| Accrued and unbilled                                | 3,261    | 2,160    |
| Work-in-progress                                    | 8,254    | 7,887    |
| Allowance for doubtful accounts and sales discounts | (1,248)  | (1,188)  |
| Accounts receivable, net                            | \$50,159 | \$45,958 |

5. Acquisitions

General

In connection with certain acquisitions, the Company is obligated to pay future contingent consideration to the sellers upon the acquired business achieving certain earnings targets over periods ranging from two to four years following the acquisition. In general, the future contingent consideration amounts fall into one of two categories: (a) Deferred Consideration - fixed amounts due if the acquisition achieves a base level of earnings which has been determined at the time of acquisition and (b) Earnouts - amounts payable that are not fixed and are based on the growth in excess of the base level earnings.

Future Contingent Payments

The Company has three active acquisition agreements whereby future contingent consideration may be earned and paid (NuSoft and MBH acquired in 2008 and PSG acquired in 2009). Prior to December 2007 and the NuSoft and MBH acquisitions, the Financial Accounting Standards Board ("FASB") issued "Business Combinations" which did not require that the estimated fair value of contingent consideration be recorded as a liability. The Company has not

recorded any liability associated with the contingent consideration that may be paid in connection with its March 19, 2008 acquisition of the operating assets of NuSoft Solutions, Inc. (“NuSoft”) or its April 28, 2008 acquisition of the operating assets of MBH Solutions, Inc. (“MBH”), both as described in Note 4 to the Company’s Consolidated Financial Statements included in its Annual Report on Form 10-K for the fiscal year ended January 2, 2010. Prior to April 2009 and the Company’s July 6, 2009 acquisition of the operating assets of Project Solutions Group, Inc. (“PSG”), as described below, FASB issued “Accounting for Assets Acquired and Liabilities Assumed in Business Combinations That Arise from Contingencies” which requires that the fair value of any future contingent consideration be recorded as a liability. The Company has determined that the estimated fair value of the total future contingent consideration (Deferred Consideration and Earnouts) associated with the PSG acquisition is approximately \$0.9 million. The amount actually paid, if any, may substantially exceed the estimated fair value. The Company has recorded this liability and increased its goodwill by a like amount.



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

5. Acquisitions (Continued)

The Company's outstanding Deferred Consideration obligations potentially due after April 3, 2010, which relate to the NuSoft, MBH and PSG acquisitions, could result in the following maximum Deferred Consideration payments:

| Year Ending                          | Amount  |
|--------------------------------------|---------|
| January 1,<br>2011                   | \$2,800 |
| December 31,<br>2011                 | 1,650   |
| Thereafter                           | 850     |
| Maximum<br>deferred<br>consideration | \$5,300 |

The Company cannot estimate future Deferred Consideration payments with any certainty. However, the Company does not believe that any Deferred Consideration payments will be made during the fiscal year ending January 1, 2011. Earnouts, if any, cannot be estimated with any certainty and as such are not included above. Any Earnouts paid, if any, are not likely to be material. The Company does not believe that any Earnouts will be paid during the fiscal year ending January 1, 2011.

Project Solutions Group, Inc.

On July 6, 2009, the Company purchased the operating assets of PSG. PSG is a specialty provider of information technology services. PSG provides expert project management and training services to a diverse client base. PSG helps clients deploy Microsoft's project management tools to streamline and coordinate project-based initiatives across their organizations.

The acquisition was effective as of June 28, 2009 and has been accounted for in accordance with "Business Combinations" and "Accounting for Assets Acquired and Liabilities Assumed in Business Combinations that Arise from Contingencies." Accordingly, the results of operations of the acquired company have been included in the consolidated results of operations of the Company from the effective date and are included in the Information Technology segment.

The PSG purchase consideration at closing consisted of \$0.8 million in cash and 100,000 shares of the Company's common stock, valued at \$0.2 million. The fair value of the common shares issued was determined based on the closing market price of the Company's common stock on the last trading day prior to the effective date of the acquisition. Post closing consideration consisted of potential Deferred Consideration payments up to \$1.5 million and additional Earnout payments, both amounts are contingent upon PSG achieving certain base levels of operating income for certain post closing periods following the purchase. Additionally, the Company recorded a liability of approximately \$0.9 million for the estimated net preset value of future contingent consideration potentially due in connection with the PSG acquisition. The effect of this transaction on the Company's consolidated financial statements was not material.

The acquisition has been accounted for under the purchase method of accounting. The purchase price paid at closing of approximately \$1.0 million has been allocated as follows:

|                          |         |
|--------------------------|---------|
| Customer relationships   | \$253   |
| Covenants-not-to-compete | 38      |
| Goodwill                 | 728     |
|                          | \$1,019 |

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

## 5. Acquisitions (Continued)

## Pro Forma Results of Operations

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

|   | Thirteen Week Periods |                   |
|---|-----------------------|-------------------|
|   | Ended                 |                   |
|   | April 3,<br>2010      | March<br>28, 2009 |
| Revenues  | \$49,056              | \$47,840          |
| Operating income (loss) from continuing operations    | \$2,037               | (\$248)           |
| Net income from continuing operations                 | \$2,404               | \$5,668           |
| Diluted earnings per share from continuing operations | \$0.18                | \$0.43            |

## 6. 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:

|   | April 3,<br>2010 | January<br>2,<br>2010 |
|---|------------------|-----------------------|
| Equipment and furniture                         | \$2,817          | \$2,943               |
| Computers and systems                           | 5,851            | 6,630                 |
| Leasehold improvements                          | 1,075            | 1,169                 |
|   | 9,743            | 10,742                |
| Less: accumulated depreciation and amortization | 5,573            | 6,194                 |
|   | \$4,170          | \$4,548               |



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

7. New Accounting Standards

In October 2009, FASB issued "Revenue Arrangements with Multiple Deliverables." This statement provides principles for allocating sales consideration among multiple-element revenue arrangements with an entity's customers, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. This update introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. The Company is currently evaluating the impact of adopting this pronouncement.

8. 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 \$5.0 million for letters of credit (the "Revolving Credit Facility"). 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.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as restrictions on the Company's ability to pay dividends. The Revolving Credit Facility expires in August 2011.

There were no borrowings during the thirteen week period ended April 3, 2010. During the thirteen week period ended March 28, 2009, the Company's outstanding borrowings ranged from \$-0- million to \$4.9 million. The majority of borrowings in 2009 were subject to alternative (i) LIBOR (London Interbank Offered Rate), plus applicable margin on contracts of 30 days or more. The weighted average interest rate under the Revolving Credit Facility for the thirteen week period ended March 28, 2009 was 2.2%. At April 3, 2010 and January 2, 2010, there were letters of credit outstanding for \$2.4 million and \$1.6 million, respectively. At April 3, 2010, the Company had availability for additional borrowings under the Revolving Credit Facility of \$12.6 million.

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

9. Goodwill

The Company is required to perform a goodwill impairment test on at least an annual basis. Application of the goodwill impairment test requires significant judgments, including estimation of future cash flows, which are 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 the Company's 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 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 compares the fair value of each of its reporting units to their respective carrying values, including related goodwill. There were no triggering events during the thirteen week period ended April 3, 2010 that indicated a need to perform the impairment test prior to the Company's annual test date.

The carrying amount of goodwill for the thirteen week period ended April 3, 2010 is summarized as follows:

|                             | Information<br>Technology | Engineering | Commercial | Total   |
|-----------------------------|---------------------------|-------------|------------|---------|
| Balance as of April 3, 2010 | \$6,356                   | \$100       | \$1,804    | \$8,260 |

10. Intangible Assets

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

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

|  | Information<br>Technology | Engineering | Commercial | Total |
|--|---------------------------|-------------|------------|-------|
| Balance as of January 2, 2010  | \$420                     | \$44        | \$ -       | \$464 |
| Amortization of intangibles<br>during the<br>thirteen week period ended April<br>3, 2010 | 26                        | 9           | -          | 35    |
| Balance as of April 3, 2010  | \$394                     | \$35        | \$ -       | \$429 |



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

## 11. Stockholders' Equity

## Common Stock Reserved

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

|                                       | April 3,<br>2010 | January<br>2,<br>2010 |
|---------------------------------------|------------------|-----------------------|
| Exercise of options<br>outstanding    | 1,546,594        | 1,564,594             |
| Future grants of<br>options or shares | 426,100          | 426,100               |
| <b>Total</b>                          | <b>1,972,694</b> | <b>1,990,694</b>      |

## 12. Earnings Per Share

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

The number of common shares used to calculate basic and diluted (loss) earnings per share for the thirteen week periods ended April 3, 2010 and March 28, 2009 was determined as follows:

|       |  | Thirteen Week Periods<br>Ended |                   |
|-------|--|--------------------------------|-------------------|
|       |  | April 3,<br>2010               | March 28,<br>2009 |
| Basic | Weighted average<br>shares outstanding   | 12,999,178                     | 12,813,522        |
|       | Diluted  |                                |                   |
|       | Shares used for basic<br>calculation   | 12,999,178                     | 12,813,522        |
|       | Dilutive effect of<br>options granted<br>under the Company's<br>stock option plans | 53,889                         | -                 |
|       |  | <b>13,053,067</b>              | <b>12,813,522</b> |

## 13. Share - Based Compensation



At April 3, 2010, the Company had five share-based employee compensation plans. The Company measures the fair value of stock options, if and when granted, based upon the closing market price of the Company's common stock on the date of grant. Grants vest over periods ranging from one to three years and expire within 10 years of issuance. Stock options that vest in accordance with service conditions amortize over their applicable vesting period using the straight-line method.

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

The Company recognizes compensation costs in the financial statements for all share-based payments granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with "Share-Based Payment, revised 2004." Compensation cost recognized in 2010 and 2009 included: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated, adjusted for estimated forfeitures, and (b) compensation cost for all stock-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated, adjusted for estimated forfeitures. The straight-line recognition method is used to recognize compensation expense associated with share-based payments that are subject to graded vesting based on service conditions.

Share-based compensation expense of \$65 and \$93 was recognized for the thirteen week periods ended April 3, 2010 and March 28, 2009, respectively.

No options were granted during the thirteen week period ended April 3, 2010. The weighted average fair value of options granted using the Black-Scholes Option Pricing Model during the thirteen week period ended March 28, 2009 has been estimated using the following assumptions:

|  |   |
|--|---|
|  | Thirteen<br>Week<br>Period<br>Ended<br>March<br>28,<br>2009 |
| Weighted average risk-free interest rate | 1.90%   |
| Expected term of option                  | 5 years   |
| Expected stock price volatility          | 64%   |
| Expected dividend yield                  | -   |
| Annual forfeiture rate                   | 15.9%   |
| Weighted-average grant date fair value   | \$0.52  |

Activity regarding outstanding options for the thirteen week period ended April 3, 2010 is as follows:

|   |                               |                                       |
|---|-------------------------------|---------------------------------------|
|   | All Stock Options Outstanding | Weighted<br>Average<br>Exercise Price |
|   | Shares                        |                                       |
| Options outstanding as of January 2, 2010 | 1,564,594                     | \$3.87                                |

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|  |                    |        |
|--|--------------------|--------|
| Options granted  | -                  | \$ -   |
| Options exercised  | -                  | \$ -   |
| Options forfeited/cancelled                                      | (18,000)           | \$5.49 |
| Options outstanding as of April 3, 2010                          | 1,546,594          | \$3.85 |
| Option price range at April 3, 2010                              | \$0.95 -<br>\$9.81 | \$3.85 |
| Options exercisable as of April 3, 2010                          | 1,164,400          | \$4.32 |
| Intrinsic value of outstanding stock options as of April 3, 2010 | \$526              |        |

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13. Share - Based Compensation (Continued)

Incentive Stock Option Plans

1992 Incentive Stock Option Plan (the 1992 Plan)

The 1992 Plan, approved by the Company's stockholders in April 1992 and amended in April 1998, provided for the issuance of up to 500,000 shares of the Company's common stock per individual to officers, directors, and key employees of the Company and its subsidiaries through February 13, 2002, at which time the 1992 Plan expired. The options issued were intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code. The option terms were not permitted to exceed 10 years and the exercise price was not permitted to be less than 100% of the fair market value of the shares at the time of grant. The Compensation Committee of the Board of Directors determined the vesting period at the time of grant for each of these options. As of April 3, 2010, options to purchase 60,455 shares of common stock granted under the 1992 Plan were outstanding.

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

The 1994 Plan, approved by the Company's stockholders in May 1994 and amended in April 1998, provided for the issuance of up to 110,000 shares of the Company's common stock to non-employee directors of the Company through February 19, 2004, at which time the 1994 Plan expired. Options granted under the 1994 Plan were granted at fair market value at the date of grant, and the exercise of options is contingent upon service as a director for a period of one year. Options granted under the 1994 Plan terminate when an optionee ceases to be a director of the Company. As of April 3, 2010, options to purchase 50,000 shares of common stock granted under the 1994 Plan were outstanding.

1996 Executive Stock Option Plan (the 1996 Plan)

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provided for the issuance of up to 1,250,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006, at which time the 1996 Plan expired. Options are 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 April 3, 2010, options to purchase 662,045 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, provides 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 to 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 April 3, 2010, options to purchase 500,194 shares of common stock granted under the 2000 Plan were outstanding.

The 1992 Plan, 1994 Plan, 1996 Plan and 2000 Plan are expired and therefore no shares are available for issuance.



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13. Share - Based Compensation (Continued)

Incentive Stock Option Plans (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 to 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 April 3, 2010, 426,100 shares of common stock were available for future grants under the 2007 Plan, and options to purchase 273,900 shares of common stock granted under the 2007 Plan were outstanding.

As of April 3, 2010, the Company had approximately \$189 of total unrecognized compensation cost related to non-vested awards granted under the Company's various share-based plans, which the Company expects to recognize over approximately a three-year period. These amounts do not include the cost of any additional options that may be granted in future periods or reflect any potential changes in the Company's forfeiture rate.

Employee Stock Purchase Plan

The Company implemented the 2001 Employee Stock Purchase Plan with shareholder approval, effective January 1, 2001. Such Plan was subsequently amended, pursuant to stockholder approved 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 was 38,400. Compensation expense for the Purchase Plan for the thirteen weeks ended April 3, 2010 and March 28, 2009 was insignificant. As of April 3, 2010, there were 356,136 shares available for issuance under the Purchase Plan.

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## 14. Segment Information

The Company follows “Disclosures about Segments of an Enterprise and Related Information,” which establishes standards for companies to report information about operating segments, geographic areas and major customers. The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1 to the Company’s Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended January 2, 2010.)

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

| Thirteen Week Period Ended<br>April 3, 2010    | Information<br>Technology | Engineering | Commercial | Corporate | Total    |
|--|---------------------------|-------------|------------|-----------|----------|
| Revenue  | \$19,802                  | \$18,702    | \$10,552   | \$ -      | \$49,056 |
| Cost of services                               | 14,471                    | 14,064      | 7,829      | -         | 36,364   |
| Selling, general and<br>administrative         | 5,144                     | 2,799       | 2,362      | -         | 10,305   |
| Depreciation and<br>amortization               | 128                       | 176         | 46         | -         | 350      |
| Operating income from<br>continuing operations | \$59                      | \$1,663     | \$315      | \$ -      | \$2,037  |
| Total assets                                   | \$20,182                  | \$27,863    | \$12,128   | \$23,591  | \$83,764 |
| Capital expenditures                           | \$ -                      | \$7         | \$ -       | \$6       | \$13     |

| Thirteen Week Period Ended<br>March 28, 2009 | Information<br>Technology | Engineering | Commercial | Corporate | Total    |
|--|---------------------------|-------------|------------|-----------|----------|
| Revenue                                      | \$21,510                  | \$14,873    | \$10,274   | \$ -      | \$46,657 |
| Cost of services                             | 16,863                    | 11,785      | 7,441      | -         | 36,089   |
| Selling, general and<br>administrative       | 5,319                     | 2,677       | 2,520      | -         | 10,516   |
| Depreciation and<br>amortization             | 148                       | 161         | 51         | -         | 360      |

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|  |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| Operating (loss) income from continuing operations | (\$820)  | \$250    | \$262    | \$ -     | (\$308)  |
| Total assets                                       | \$26,196 | \$21,860 | \$11,586 | \$16,013 | \$75,655 |
| Capital expenditures                               | \$5      | \$54     | \$2      | \$194    | \$255    |



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14. Segment Information (Continued)

Revenues from continuing operations reported for each operating segment are from external customers.

The Company is domiciled in the United States and its segments operate in the United States, Canada, Puerto Rico and Ireland. Revenues by geographic area for the thirteen week periods ended April 3, 2010 and March 28, 2009 are as follows:

|             | Thirteen Week<br>Periods Ended |                      |
|-------------|--------------------------------|----------------------|
|             | April 3,<br>2010               | March<br>28,<br>2009 |
| Revenues    |                                |                      |
| U. S.       | \$40,127                       | \$41,165             |
| Canada      | 8,160                          | 4,647                |
| Puerto Rico | 769                            | 845                  |
|             | \$49,056                       | \$46,657             |

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

|              | April 3,<br>2010 | January<br>2,<br>2010 |
|--------------|------------------|-----------------------|
| Total assets |                  |                       |
| U. S.        | \$70,211         | \$66,020              |
| Canada       | 12,374           | 10,852                |
| Puerto Rico  | 1,179            | 1,337                 |
|              | \$83,764         | \$78,209              |

15. Legal Settlement

In 2002, the Company recorded a charge of \$7.6 million relating to a lawsuit with two former officers and directors who joined the Company in connection with an acquisition in 1996. The Company filed suit on professional liability claims against the attorneys and law firms who had served as its counsel in the acquisition transaction and in connection with its subsequent dealings with the plaintiffs concerning their various relationships with the Company resulting from that transaction. In 2007, the Company reached a settlement with one of the law firm defendants resulting in the recovery of \$0.8 million. In March 2009, the Company entered into a settlement agreement with the remaining defendants in this lawsuit. The Company received \$9.8 million on March 27, 2009.



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16. Contingencies

The Company is party to two agreements of indemnity related to the performance of two construction projects. One of these construction projects was managed by a former customer of the Company and the construction for this project was completed in the third quarter of 2009. The second of these construction projects was managed by the same customer prior to November 2008 when the initial contract was transferred to the Company. The Company now acts as the general contractor on this construction project. The contract price is approximately \$6.2 million and management of the Company estimates the project was approximately 99% complete as of April 3, 2010. The Company believes this project will be finished in the second quarter of fiscal year 2010. In the event of non-performance on either construction project, the Company may be obligated to indemnify the project owners for certain cost overruns on such projects. Management believes that any such cost overruns would not have a significant adverse financial impact to the financial position of the Company and its results of operations.

From time to time, the Company is a defendant or plaintiff in various legal actions which arise in the normal course of business. As such, the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of losses and possible recoveries. The Company may not be covered by insurance as it pertains to some or all of these matters. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. Once established, a provision may change in the future due to new developments or changes in circumstances, and could increase or decrease the Company's earnings in the period that the changes are made. The Company has accrued a provision for losses aggregating approximately \$0.7 million as of April 3, 2010 and January 2, 2010. Asserted claims in these matters seek approximately \$2.7 million in damages as of April 3, 2010.

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 or may not be covered by insurance.

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17. Discontinued Operations

In March 2010, the Company closed its Oracle business unit located in southern California. The closed business unit, included in the Company's Information Technology segment, sold Oracle software applications and provided implementation, hosting and maintenance services for the suite of Oracle and related software applications. The Company is winding down this business unit as it completes its final engagements, which are expected to be completed during the thirteen week period ending July 3, 2010. As a result, the Company anticipates continued operating losses in its Oracle business unit during the thirteen weeks ending July 3, 2010, albeit at a substantially lower level than the thirteen weeks ending April 3, 2010.

The net assets and liabilities of discontinued operations consist of:

|   | April 3,<br>2010 | January<br>2,<br>2010 |
|---|------------------|-----------------------|
| Assets:                                   |                  |                       |
| Accounts receivable, net                  | \$154            | \$395                 |
| Prepaid expenses and other current assets | -                | 39                    |
| Property and equipment, net               | -                | 220                   |
| Deposits                                  | 20               | 18                    |
| <br>Total assets                          | <br>\$174        | <br>\$672             |
| Liabilities:                              |                  |                       |
| Accounts payable and accrued expenses     | \$325            | \$255                 |
| Accrued payroll and related costs         | 48               | 102                   |
| <br>Total liabilities                     | <br>\$373        | <br>\$357             |

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
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## 17. Discontinued Operations (Continued)

The income (loss) from discontinued operations consists of:

|   | Thirteen Week Periods Ended |                   |
|---|-----------------------------|-------------------|
|   | April 3,<br>2010            | March 28,<br>2009 |
| Revenues                                    | \$471                       | \$1,391           |
| Cost of services                            | 744                         | 1,018             |
| Gross (loss) profit                         | (273)                       | 373               |
| Operating costs and expenses                |                             |                   |
| Selling, general and administrative         | 547                         | 491               |
| Depreciation                                | 26                          | 23                |
| Loss on disposal of fixed assets            | 269                         | -                 |
|   | 842                         | 514               |
| Operating loss from discontinued operations | (1,115)                     | (141)             |
| Income tax benefit                          | (483)                       | (57)              |
| Net loss from discontinued operations       | (\$632)                     | (\$84)            |

## 18. Income Taxes

The Company recognized a nonrecurring current tax benefit of \$1.1 million due to the discrete nature of the first quarter 2010 goodwill and intangible asset tax deduction for the liquidation of its subsidiary described in Note 17 to the Consolidated Financial Statements. This was partially offset by regular tax provision expense of \$0.7 million on current taxable income from continuing operations, resulting in a cumulative tax benefit of approximately \$0.4 million (not including the tax benefit from discontinued operations) for the first quarter of 2010. The Company recognized an impairment of the book goodwill and intangible assets associated with this subsidiary in 2008. During the remainder of 2010, the Company expects that taxable income from operations will be generated in an amount sufficient to offset this nonrecurring tax deduction.

Excluding the tax benefit from the nonrecurring goodwill and intangible asset tax deduction, the Company's effective income tax rate for the thirteen week period ended April 3, 2010 was 34.5%. This rate is lower than what the Company typically experiences due to tax abatements for 2010 in Canada. For each of the remaining 2010 quarters, the Company anticipates its effective income tax rate will range from 34.0% to 40.0%.

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

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

Overview

RCM participates in a market that is cyclical in nature and extremely 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.

After normalizing for the July 6, 2009 acquisition of the operating assets of Project Solutions Group, Inc. ("PSG"), the Company experienced a small increase in revenues during the thirteen week period ended April 3, 2010 as compared to the comparable prior year period. The Company attributes this increase primarily to improvement in the activity pipeline at several of its large Engineering segment clients. While the Company believes general economic conditions and overall market conditions in its Information Technology and Commercial segments have improved slightly from the end of 2009, the Company is cautious regarding expectations for 2010 as the Company believes that any general economic or market recovery may be tenuous.

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

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

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

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





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

### Overview (Continued)

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

Costs of services consist primarily of salaries and compensation-related expenses for billable consultants, 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 and Information Technology segments perform consulting and project solutions services. All of the Company's segments perform staff augmentation services and derive revenue from permanent placement fees. The majority of the Company's revenues are invoiced on a time and materials basis.

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

Fees, if any, are recorded when the Company is reasonably certain of collection. Some contracts also limit revenues and billings to maximum amounts. Provision for contract losses, if any, are made in the period such losses are determined. For contracts where there is a deliverable, if 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. In these circumstances, the Company assumes the risk of acceptability of its employees to its customers. 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).

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.

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.

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

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 perform a goodwill and intangible asset impairment test on at least an annual basis. Application of the goodwill and intangible asset impairment test requires significant judgments including 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 and intangible asset impairment for each reporting unit. The Company conducts its annual goodwill and intangible asset 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 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, and under the November 2009 calculation the fair value exceeded the recorded goodwill by at least 25% for each of the reporting units. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill and intangible assets. There can be no assurance that future tests of goodwill and intangible asset 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.

Accounting for Stock Options

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

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 April 3, 2010, the Company had short term deferred tax assets of

\$0.7 million and total long term net deferred income tax assets of \$3.8 million. The short term deferred tax assets primarily represent timing differences for GAAP expense accruals not deductible for tax purposes. The long term deferred tax assets represent the tax effect of temporary differences for the GAAP versus tax amortization of acquisitions made in the current and 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.

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

Accounting for Income Taxes (Continued)

The Company adopted the provisions of "Accounting for Uncertainty in Income Taxes," on January 1, 2007. The Company recognized no material adjustments in the liability for unrecognized income tax benefits. The Company conducts its operations in multiple tax jurisdictions in the United States, Puerto Rico, Canada and Ireland. With limited exceptions, the Company is no longer subject to audits by state and local tax authorities for tax years prior to 2006. The Company's federal income tax returns have been examined through 2007. As of April 3, 2010, the Company did not have any material uncertain tax positions.

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.

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.

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.

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

Thirteen Week Period Ended April 3, 2010 Compared to Thirteen Week Period Ended March 28, 2009

A summary of operating results for the thirteen week periods ended April 3, 2010 and March 28, 2009 is as follows (in thousands):

|   | April 3, 2010 |              | March 28, 2009 |              |
|---|---------------|--------------|----------------|--------------|
|   | Amount        | % of Revenue | Amount         | % of Revenue |
| Revenues  | \$49,056      | 100.0        | \$46,657       | 100.0        |
| Cost of services  | 36,364        | 74.1         | 36,089         | 77.3         |
| Gross profit  | 12,692        | 25.9         | 10,568         | 22.7         |
| Selling, general and administrative                     | 10,305        | 21.0         | 10,516         | 22.5         |
| Depreciation and amortization                           | 350           | 0.7          | 360            | 0.8          |
|   | 10,655        | 21.7         | 10,876         | 23.3         |
| Operating income (loss) from continuing operations      | 2,037         | 4.2          | (308)          | (0.6)        |
| Other (expense) income, net                             | (45)          | 0.1          | 9,720          | 20.8         |
| Income from continuing operations before income taxes   | 1,992         | 4.1          | 9,412          | 20.2         |
| Income tax (benefit) expense from continuing operations | (412)         | (0.8)        | 3,775          | 8.1          |
| Net income from continuing operations                   | 2,404         | 4.9          | 5,637          | 12.1         |
| Loss from discontinued operations, net of tax benefit   | (632)         | (1.3)        | (84)           | (0.2)        |
| Net income  | \$1,772       | 3.6          | \$5,553        | 11.9         |

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The year to date reporting periods ended April 3, 2010 and March 28, 2009 consisted of thirteen weeks each.

Revenues. Revenues increased 5.1%, or \$2.4 million, for the thirteen week period ended April 3, 2010 as compared to the thirteen week period ended March 28, 2009 (the "comparable prior year period"). Revenues decreased \$1.7 million in the Information Technology segment, increased \$3.8 million in the Engineering segment, and increased \$0.3 million in the Commercial segment. The Company typically experiences seasonality in revenues during months that contain holidays and increased vacation time as billable personnel are not available to bill time to customers. See Segment Discussion for further information on revenue changes.





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

Thirteen Week Period Ended April 3, 2010 Compared to Thirteen Week Period Ended March 28, 2009 (Continued)

**Cost of Services.** Cost of services increased 0.8%, or \$0.3 million, for the thirteen week period ended April 3, 2010 as compared to the comparable prior year period. The increase in cost of services was due to the overall increase in revenues. Cost of services as a percentage of revenues decreased to 74.1% for the thirteen week period ended April 3, 2010 from 77.3% for the comparable prior year period. This decrease was primarily due to higher sales, favorable fixed priced contracts in our Engineering segment and decreased unbilled labor costs as compared to total labor costs for consultants (i.e., an increase in utilization of billable personnel) in our Information Technology segment. The decrease in unbilled labor costs was due to a reduction in holidays (no New Years Day in the current period) and improved management of billable personnel. Management anticipates the ratio of cost of sales to revenues for the remainder of fiscal 2010 to remain comparable to that in the thirteen week period ended April 3, 2010, adjusted for increased vacation and holidays in the third and fourth quarters.

**Selling, General and Administrative.** Selling, general and administrative ("SGA") expenses decreased 2.0%, or \$0.2 million, for the thirteen week period ended April 3, 2010 as compared to the comparable prior year period. The decrease in SGA expenses is primarily due to a concerted effort by the Company to reduce SGA expenses offset by SGA expenses of \$0.4 million incurred by the PSG acquisition in the thirteen weeks ended April 3, 2010. As a percentage of revenues, SGA expenses were 21.0% for the thirteen week period ended April 3, 2010 as compared to 22.6% for the comparable prior year period. The decrease in SGA expenses as a percentage of revenues was primarily attributable to increased revenues combined with decreased SGA expenses. Assuming no material changes to gross profit, management expects SGA expenses for the remainder of fiscal 2010 to remain generally consistent with the SGA expenses for the thirteen week period ended April 3, 2010.

**Depreciation and Amortization.** Depreciation and amortization was \$0.4 million for both the thirteen week period ended April 3, 2010 and the comparable prior year period.

**Other Income (Expense).** Other income (expense) consists of interest expense and unused line fees net of interest income on the Company's loan agreement, gains and losses on foreign currency transactions and, in the comparable prior year period, \$9.8 million in proceeds from a legal settlement. Interest expense, net and other increased due to an increase in unused line fees.

**Income Tax Expense From Continuing Operations.** The Company experienced an income tax benefit from continuing operations of \$0.4 million for the thirteen week period ended April 3, 2010 as compared to \$3.8 million expense for the comparable prior year period. The Company recognized an income tax benefit of \$1.1 million due to an anticipated 2010 goodwill and intangible asset tax deduction. The Company recognized an impairment of the remaining goodwill and intangible assets for book purposes in 2008.

Before considering the benefit from the anticipated goodwill and intangible asset tax deduction, the effective tax rate was 34.5% for the thirteen week period ended April 3, 2010 as compared to 40.1% in the comparable prior year period. The decrease to the effective tax rate for the thirteen week period ended April 3, 2010 as compared to the comparable prior year period was due to income tax rate abatements in Canada in 2010. Management anticipates that the effective tax rate for the remainder of fiscal 2010 will increase.



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

Thirteen Week Period Ended April 3, 2010 Compared to Thirteen Week Period Ended March 28, 2009 (Continued)

Discontinued Operations. See Note 17 to the Consolidated Financial Statements included in this report for a description of discontinued operations. The Company experienced a loss from discontinued operations, net of tax benefit of \$0.6 million for the thirteen week period ended April 3, 2010 as compared to \$0.1 million in the comparable prior year period. The Company experienced an operating loss from discontinued operations of \$1.1 million in the thirteen week period ended April 3, 2010 as compared to \$0.1 million in the comparable prior year period. As the Company is closing this operation, revenues are declining (eventually to zero) while cost of services and SGA expenses have not been reduced at the same pace. This is because the Company has client service commitments until certain contractual engagements expire. The Company must retain personnel in order to maintain those contractual commitments. Additionally, the Company recorded severance commitments, reserved for accounts receivables the Company does not expect to collect and wrote off fixed assets that the Company cannot utilize. The Company does not expect substantial operating losses from discontinued operations for the balance of fiscal 2010.

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

Information Technology

Information Technology revenues of \$19.8 million in 2010 decreased \$1.7 million, or 7.9%, as compared to the comparable prior year period. The decrease in revenue was primarily attributable to a continued weakening of the general economy throughout 2009, a \$1.0 million decrease in revenues from a major pharmaceutical client that was merged in 2009 and a concentrated effort by the Company to shift to higher gross margin revenues and offset by the PSG acquisition. Revenues for the PSG acquisition were \$0.8 million for the thirteen week period ended April 3, 2010. The Information Technology segment operating income was \$0.1 million as compared to an operating loss of \$0.8 million in the comparable prior year period. The improvement in operating income is attributable to an increase in gross profit.

Engineering

Engineering revenues of \$18.7 million in 2010 increased \$3.8 million, or 25.7%, as compared to the comparable prior year period. The increase in revenue is attributable to increases in revenues from several major customers in the Company's Power Systems Group that are operating at increased levels of spending as compared to the comparable prior year period. The Engineering segment operating income was \$1.7 million as compared to \$0.3 million for the comparable prior year period. The increase in operating income was primarily due to increased revenues and lower cost of services as a percentage of revenues offset by a higher allocation of corporate selling, general and administrative costs as compared to the comparable prior year period.

Commercial

Commercial revenues of \$10.6 million in 2010 increased \$0.3 million, or 2.7%, as compared to the comparable prior year period. The increase in revenue was principally attributable to slight improvement in the revenues of the Company's light industrial staffing unit. The Company's light industrial staffing unit primarily operates in southern California and services mostly manufacturing and retail clients. The Company believes that the southern California region and its manufacturing and retail industries have been significantly impacted by negative economic trends but is hopeful these trends have subsided or at least stabilized. The Commercial segment had operating income of \$0.3

million for both the thirteen week period ended April 3, 2010 and the comparable prior year period. The Commercial segment's largest customer is the New York City Department of Education and activity in the summer months declines significantly due to school closures.

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

Liquidity and Capital Resources

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

|                                 | Thirteen Week<br>Periods Ended |                      |
|---------------------------------|--------------------------------|----------------------|
|                                 | April<br>3,<br>2010            | March<br>28,<br>2009 |
| Cash provided by (used<br>in):  |                                |                      |
| O p e r a t i n g<br>activities | \$1,228                        | \$9,353              |
| I n v e s t i n g<br>activities | \$7                            | (\$218)              |
| F i n a n c i n g<br>activities | \$73                           | (\$4,863)            |

Operating Activities

Operating activities provided \$1.2 million of cash for the thirteen week period ended April 3, 2010 as compared to \$9.4 million in the comparable prior year period. The major components of the cash provided by operating activities in the thirteen week period ended April 3, 2010 and the comparable prior year period are as follows: net income, accounts receivables, prepaid expenses and other current assets, accounts payable and accrued expenses and accrued payroll and related costs.

The largest driver of the cash provided by operating activities in the comparable prior year period was a one-time \$9.8 million legal settlement (\$5.8 million after tax effect). Before considering the legal settlement and other (expense) income, there was an operating loss of \$0.3 million (\$0.2 million after tax effect). During the thirteen week period ended April 3, 2010, there was operating income of \$2.0 million (\$1.3 million after tax effect). Net income in the thirteen weeks ended April 3, 2010 was increased by a \$1.1 million tax benefit recognized from an anticipated tax deduction associated with the liquidation of a subsidiary (see Note 17 and 18 to the Consolidated Financial Statements included in this report).

An increase in accounts receivables in the thirteen week period ended April 3, 2010 used \$4.0 million as compared to providing \$4.3 million in the comparable prior year period. The Company believes the recent increase in accounts receivables is due to timing issues and that the ratio of accounts receivables to sales will improve in subsequent quarters. The tax benefit associated with the liquidated subsidiary was the primary reason for the increase in prepaid expenses and other current assets which used \$1.1 million in the thirteen weeks ended April 3, 2010 as compared to providing \$0.5 million in the comparable prior year period.

An increase in accounts payable and accrued expenses in the thirteen week period ended April 3, 2010 provided \$1.3 million as compared to using \$1.0 million in 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 to accrued payroll and related

costs in the thirteen week period ended April 3, 2010 provided \$2.1 million as compared to using \$2.8 million in the comparable prior year period. The majority of the Company's payroll is paid biweekly (paid every other Friday) and the timing of biweekly payrolls relative to quarter end dates (always a Saturday) is the major determining factor for the impact of accrued payroll and related costs on cash flow from operating activities. The last payroll date for any quarter is the Friday one day prior to the quarter end or the prior Friday eight days before quarter end. The last payroll date for the thirteen weeks ended April 3, 2010 was March 26, 2010, eight days before quarter end which lead to an increased accrual for payroll and related costs. The last payroll date for the thirteen weeks ended March 28, 2009 was March 27, 2009, one day before quarter end which lead to a decreased accrual for payroll and related costs.

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

Liquidity and Capital Resources (Continued)

Investing Activities

Investing activities provided marginally positive cash flow for the thirteen week period ended April 3, 2010 as compared to a use of \$0.2 million for the comparable prior year period. The increase in cash flow from investing activities for 2010 as compared to the comparable prior year period was primarily attributable to decreased expenditures for property and equipment.

Financing Activities

In 2010, financing activities consisted of providing \$0.1 million from the sale of stock through the Company's employee stock purchase plan. In 2009, financing activities primarily consisted of reducing debt by \$4.9 million.

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 \$5.0 million for letters of credit (the "Revolving Credit Facility"). Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, or (ii) the agent bank's prime rate. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as restrictions on the Company's ability to pay dividends. The Revolving Credit Facility expires in August 2011.

There were no borrowings during the thirteen week period ended April 3, 2010. During the thirteen week period ended March 28, 2009, the Company's outstanding borrowings ranged from \$-0- million to \$4.9 million. The majority of borrowings in 2009 were subject to alternative (i) LIBOR (London Interbank Offered Rate), plus applicable margin on contracts of 30 days or more. The weighted average interest rate under the Revolving Credit Facility for the thirteen week period ended March 28, 2009 was 2.2%. At April 3, 2010 and January 2, 2010, there were letters of credit outstanding for \$2.4 million and \$1.6 million, respectively. At April 3, 2010, the Company had availability for additional borrowings under the Revolving Credit Facility of \$12.6 million.

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, 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 for the period in which the effect becomes reasonably estimable.

The Company's business strategy is to achieve growth both internally through operations and externally through strategic acquisitions. The Company from time to time engages in discussions with potential acquisition



candidates. As the size of the Company and its financial resources increase however, acquisition opportunities requiring significant commitments of capital may arise. In order to pursue such opportunities, the Company may be required to incur debt or issue potentially dilutive securities in the future. No assurance can be given as to the Company's future acquisition and expansion opportunities or how such opportunities will be financed.

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

Liquidity and Capital Resources (Continued)

Financing Activities - (Continued)

The Company does not currently have material commitments for capital expenditures. However, the Company anticipates that it will begin to upgrade its current ERP system sometime in 2010. The Company does not currently anticipate entering into any other significant capital commitments during the next 12 months. 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 September 2015. 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  |
|----------------------------|---------|
| 2010 (after<br>March 2010) | \$2,986 |
| 2011                       | 3,274   |
| 2012                       | 2,107   |
| 2013                       | 810     |
| 2014                       | 147     |
| Thereafter                 | 96      |
| Total                      | \$9,420 |

The Company has three active acquisition agreements whereby future contingent consideration may be earned and paid (these relate to the March 19, 2008 acquisition of the operating assets of NuSoft Solutions, Inc. ("NuSoft") and the April 28, 2008 acquisition of the operating assets of MBH Solutions, Inc. ("MBH"), both as described in Note 4 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the fiscal year ended January 2, 2010, as well as the PSG acquisition). In connection with these acquisitions, the Company is obligated to pay future contingent consideration to the sellers upon the acquired business achieving certain earnings targets over periods ranging from two to four years following the acquisition. In general, the future contingent consideration amounts fall into two categories: (a) Deferred Consideration - fixed amounts due if the acquisition achieves a base level of earnings which has been determined at the time of acquisition and (b) Earnouts - amounts payable that are not fixed and are based on the growth in excess of the base level earnings.

The Company's outstanding Deferred Consideration obligations potentially due after April 3, 2010, which relate to the NuSoft, MBH and PSG acquisitions, could result in the following maximum Deferred Consideration payments:

| Year Ending          | Amount  |
|----------------------|---------|
| January 1, 2011      | \$2,800 |
| December 31,<br>2011 | 1,650   |
| Thereafter           | 850     |

|                                      |         |
|--------------------------------------|---------|
| Maximum<br>deferred<br>consideration | \$5,300 |
|--------------------------------------|---------|

The Company cannot estimate future Deferred Consideration payments with any certainty. However, the Company does not believe that any Deferred Consideration payments will be made during the fiscal year ending January 1, 2011. Earnouts, if any, cannot be estimated with any certainty and as such are not included above. Any Earnouts paid, if any, are not likely to be material. The Company does not believe that any Earnouts will be paid during the fiscal year ending January 1, 2011.

### 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 January 2, 2010, 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 functioning effectively 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 Legal Proceedings in Note 14 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 January 2, 2010.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 31.1 Certification of 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 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.)

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: May 11, 2010

By: /s/ Leon Kopyt

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

Date: May 11, 2010

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):



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(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: May 11, 2010

/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: May 11, 2010

/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 April 3, 2010 (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  
President and Chief Executive Officer

Date: May 11, 2010

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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 April 3, 2010 (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: May 11, 2010

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