RCM TECHNOLOGIES INC
Form 10-Q
November 08, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2011

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 Incorporation)	(I.R.S. Employer Identification No.)

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 [X] 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 [X] 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):

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company
[ ]	[ ]	[ ] (Do not check if a smaller reporting company)	[X]

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

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, 12,753,704 shares outstanding as of November 7, 2011.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
October 1, 2011 and January 1, 2011
(In thousands, except share and per share amounts)

	October 1, 2011 (Unaudited)	January 1, 2011
Current assets:		
Cash and cash equivalents	$32,578	$24,704
Accounts receivable, net	38,574	41,213
Transit accounts receivable	5,817	-
Prepaid expenses and other current assets	2,721	1,841
Deferred income tax assets	827	827
Assets of discontinued operations	2	2
Total current assets	80,519	68,587
Property and equipment, net	2,752	3,295
Other assets:		
Deposits	201	183
Goodwill	7,319	7,319
Intangible assets, net	237	325
Deferred income tax assets	2,902	3,303
Total other assets	10,659	11,130
Total assets	$93,930	$83,012
Current liabilities:		
Accounts payable and accrued expenses	$5,327	$6,004
Transit accounts payable	8,193	-
Accrued payroll and related costs	8,474	6,950
Income taxes payable	471	39
Liabilities of discontinued operations	11	45
Contingent consideration	48	121
Total current liabilities	22,524	13,159
Contingent consideration	227	245
Stockholders' equity:		
Preferred stock, $1.00 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, $0.05 par value; 40,000,000 shares authorized; 13,313,274 shares issued and 12,867,338 shares outstanding at October 1, 2011 and 13,220,445 shares issued and 13,171,048 shares outstanding at January 1,	665	661

2011		
Additional paid-in capital	108,144	107,817
Accumulated other comprehensive income	1,352	1,415
Accumulated deficit	(36,938)	(40,079)
Treasury stock (445,936 shares at October 1, 2011 and 49,397 shares at January 1, 2011, at cost)	(2,044)	(206)
Total stockholders' equity	71,179	69,608
Total liabilities and stockholders' equity	$93,930	$83,012

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Thirteen and Thirty-Nine Week Periods Ended October 1, 2011 and October 2, 2010
(Unaudited)
(In thousands, except per share amounts)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Revenues	$33,559	$37,489	$108,779	$125,629
Cost of services	24,461	26,866	78,171	90,204
Gross profit	9,098	10,623	30,608	35,425
Operating costs and expenses				
Selling, general and administrative	8,077	8,410	24,919	27,674
Depreciation and amortization	279	331	867	1,011
	8,356	8,741	25,786	28,685
Operating income	742	1,882	4,822	6,740
Other (expense) income				
Interest expense, net and other	(8)	(8)	(24)	(59)
Gain (loss) on foreign currency transactions	9	(5)	29	6
	1	(13)	5	(53)
Income from continuing operations before income taxes	743	1,869	4,827	6,687
Income tax expense from continuing operations	19	698	1,686	1,439
Income from continuing operations	724	1,171	3,141	5,248
Income (loss) from discontinued operations, net of taxes	-	72	-	(514)
Net income	$724	$1,243	$3,141	$4,734
Basic net earnings per share data:				
Income from continuing operations	$0.06	$0.09	$0.24	$0.40
Loss from discontinued operations, net of tax benefit	$ -	$0.01	$ -	($0.04)
Net income	$0.06	$0.10	$0.24	$0.36
Diluted net earnings per share data:				
Income from continuing operations	$0.06	$0.08	$0.24	$0.40

Loss from discontinued operations, net of tax benefit	$ -	$0.01	$ -	($0.04)
Net income	$0.06	$0.09	$0.24	$0.36

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Thirty-Nine Week Period Ended October 1, 2011
(Unaudited)
(In thousands, except share amounts)

	Common Stock		Additional	Accumulated Other		Treasury Stock		
	Issued Shares	Amount	Paid-in Capital	Comprehensive Income	Accumulated Deficit	Shares	Amount	Total
Balance, January 1, 2011	13,220,445	$661	$107,817	$1,415	($40,079)	49,397	($206)	$69,608
Issuance of stock under employee stock purchase plan	43,407	2	166	-	-	-	-	168
Foreign currency translation adjustment	-	-	-	(63)	-	-	-	(63)
Exercise of stock options	49,422	2	92	-	-	-	-	94
Stock based compensation expense	-	-	69	-	-	-	-	69
Common stock repurchase	-	-	-	-	-	396,539	(1,838)	(1,838)
Net income	-	-	-	-	3,141	-	-	3,141
Balance, October 1, 2011	13,313,274	$665	$108,144	$1,352	($36,938)	445,936	($2,044)	$71,179

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Thirty-Nine Week Periods Ended October 1, 2011 and October 2, 2010
(Unaudited)
(In thousands)

	October 1, 2011	October 2, 2010
Net income	$3,141	$4,734
Foreign currency translation adjustment	(63)	39
Comprehensive income	$3,078	$4,773

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Thirty-Nine Week Periods Ended October 1, 2011 and October 2, 2010
(Unaudited)
(In thousands)

	October 1, 2011	October 2, 2010
Cash flows from operating activities:		
Net income	$3,141	$4,734
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	867	1,052
Loss on disposal of fixed assets	1	269
Gain on sale of discontinued operations	-	(143)
Stock-based compensation expense	69	240
Provision for allowance for doubtful accounts	65	174
Deferred tax expense	401	401
Changes in assets and liabilities:		
Accounts receivable	2,575	5,813
Transit accounts receivable	(5,817)	-
Prepaid expenses and other current assets	(509)	(129)
Accounts payable and accrued expenses	(722)	(272)
Transit accounts payable	8,193	-
Accrued payroll and related costs	1,514	2,856
Income taxes payable	65	661
Total adjustments	6,702	10,922
Net cash provided by operating activities	9,843	15,656
Cash flows from investing activities:		
Property and equipment acquired	(235)	(84)
(Increase) decrease in deposits	(18)	52
Payments of contingent consideration	(91)	-
Cash from sale of discontinued operations	-	200
Net cash (used in) provided by investing activities	(344)	168
Cash flows from financing activities:		
Proceeds from issuance of stock for employee stock purchase plan	168	149
Proceeds from exercise of stock options	94	102
Common stock repurchases	(1,838)	(114)
Net cash (used in) provided by financing activities	(1,576)	137
Effect of exchange rate changes on cash and cash equivalents	(49)	(5)
Increase in cash and cash equivalents	7,874	15,956
Cash and cash equivalents at beginning of period	24,704	10,942
Cash and cash equivalents at end of period	$32,578	$26,898

Supplemental cash flow information:		
Cash paid for:		
Interest	$37	$77
Income taxes	$1,456	$942
Non-cash investing activities relating to acquisition purchase price adjustment:		
Decrease goodwill	$ -	$840
Decrease accounts payable and accrued expenses	$ -	$313
Decrease contingent consideration	$ -	$527

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

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

1. Basis of Presentation

The accompanying consolidated interim financial statements of RCM Technologies, Inc. and subsidiaries ("RCM" or the "Company") are unaudited. The year-end consolidated balance sheet was derived from audited statements but does not include all disclosures required by accounting principles generally accepted in the United States. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the Company's consolidated financial statements and the notes thereto for the year ended January 1, 2011 included in the Company's Annual Report Form 10-K for such period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

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

Results for the thirty-nine week period ended October 1, 2011 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. In September 2010, the Company sold its light industrial and clerical staffing business located in southern California and doing business under the name Intertec. See Note 15 "Discontinued Operations" to the Consolidated Financial Statements included in this report for further details of these discontinued operations. Such businesses have been classified as discontinued operations for all periods presented.

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 1, 2011 was a 52-week reporting year. The third fiscal quarters of 2011 and 2010 ended on the following dates, respectively:

Period Ended	Weeks in Quarter	Weeks in Year to Date
October 1, 2011	Thirteen	Thirty-Nine
October 2, 2010	Thirteen	Thirty-Nine

3. Use of Estimates and Uncertainties

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

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

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 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.

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

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

4. Accounts and Transit Receivables

The Company's accounts receivable are comprised as follows:

	October 1, 2011	January 1, 2011
Billed	$28,907	$31,265
Accrued and unbilled	885	3,381
Work-in-progress	10,140	7,858
Allowance for doubtful accounts and sales discounts	(1,358)	(1,291)
Accounts receivable, net	$38,574	$41,213

Transit Receivables and Transit Payables
From time to time, the Company's Engineering segment enters into agreements to provide, among other things, construction management and engineering services. Pursuant to these agreements, the Company: a) engages subcontractors to provide construction services; b) typically earns a fixed percentage of the total project value as a fee and c) assumes no ownership or risks of inventory. In such situations, the Company acts as an agent under the provisions of "Overall Considerations of Reporting Revenue Gross as a Principal versus Net as an Agent" and therefore recognizing revenue on a "net basis." Under the terms of the agreements, the Company is not required to pay the subcontractor until after the corresponding payment from the Company's client is received. Upon invoicing the end client on behalf of the subcontractor the Company records this amount simultaneously as both a "transit account receivable" and "transit account payable" as the amount when paid to the Company is due to and generally paid to the subcontractor within a few days. At any given point in time, the Company's transit accounts receivable usually equal the transit accounts payable. However, the transit accounts payable will occasionally exceed the transit accounts receivable due to timing differences. The transit accounts receivable and related transit accounts payable were $5,817

and $8,193, respectively, as of October 1, 2011.

5. Property and Equipment

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

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

5. Property and Equipment (Continued)

Property and equipment are comprised of the following:

	October 1, 2011	January 1, 2011
Equipment and furniture	$2,757	$2,734
Computers and systems	5,617	5,869
Leasehold improvements	1,036	1,064
	9,410	9,667
Less: accumulated depreciation and amortization	6,658	6,372
Property and equipment, net	$2,752	$3,295

The Company periodically writes off fully depreciated assets. The Company wrote off fully depreciated assets of $494 and $975 for the thirty-nine week periods ended October 1, 2011 and October 2, 2010, respectively.

6. Acquisitions

General
The Company has acquired numerous companies throughout its history and those acquisitions have generally included significant contingent consideration. In general, the future contingent consideration amounts have fallen 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 Consideration
The Company has one active acquisition agreement relating to the acquisition of the assets of Project Solutions Group, Inc. ("PSG") in 2009 whereby future contingent consideration may be earned and paid. The Company, at the time of the PSG acquisition, determined that the fair value of the total future contingent consideration (Deferred Consideration and Earnouts) associated with the PSG acquisition was approximately $0.4 million. The amount actually paid, if any, may substantially exceed the estimated fair value.

The Company's outstanding Deferred Consideration obligations potentially due after October 1, 2011, which relate to the PSG acquisition, could result in the following maximum Deferred Consideration payments:

Period Ending	Amount
December 31, 2011	$48
December 29, 2012	164
	184

December 28, 2013 Maximum deferred consideration	$396

The Company cannot predict future Deferred Consideration payments with any certainty. Earnouts, if any, cannot be estimated with any certainty and as such are not included above. Future Earnouts paid, if any, are not likely to be material. The Company's estimate of the fair value of the total future contingent consideration to be paid to PSG is $275 at October 1, 2011 and $366 at January 1, 2011, which is reflected as the contingent consideration on the accompanying balance sheet.

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

7. 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 thirty-nine week period ended October 1, 2011 that indicated a need to perform the impairment test prior to the Company's annual test date.

8. Intangible Assets

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

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

	Information Technology	Engineering	Total
Balance as of January 1, 2011	$315	$10	$325
Amortization of intangibles during the thirty-nine week period ended October 1, 2011	78	10	88
Balance as of October 1, 2011	$237	$ -	$237

9. Line of Credit

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, amended and restated effective February 20, 2009, which provides for a $15 million revolving credit facility and includes a sub-limit of $5.0 million for letters of credit (the "Revolving Credit Facility"). The Revolving Credit Facility was amended on October 24, 2011 to extend the maturity date to November 30, 2011. 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 November 30, 2011. The Company intends to seek to extend or replace the Revolving Credit Facility prior to such time if it is determined that doing so would be in alignment with the Company's financing needs.

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

9. Line of Credit (Continued)

There were no borrowings during the thirty-nine week periods ended October 1, 2011 and October 2, 2010. At October 1, 2011 and January 1, 2011, there were letters of credit outstanding for $0.9 million. At October 1, 2011, the Company had availability for additional borrowings under the Revolving Credit Facility of $14.1 million.

10. Share Data

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

The number of common shares used to calculate basic and diluted earnings per share for the thirteen and thirty-nine week periods ended October 1, 2011 and October 2, 2010 was determined as follows:

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Basic weighted average shares outstanding	12,994,565	13,027,841	13,046,216	13,008,732
Dilutive effect of outstanding stock options	147,305	292,506	179,241	145,138
Dilutive shares	13,141,870	13,320,347	13,225,457	13,153,870

There were 79,984 and 808,111 options not included in the calculation of common stock equivalents because the exercise price of the options exceeded the average market price during the thirty-nine week periods ended October 1, 2011 and October 2, 2010, respectively. There were 184,264 and 88,559 options not included in the calculation of common stock equivalents because the exercise price of the options exceeded the average market price during the thirteen week periods ended October 1, 2011 and October 2, 2010, respectively.

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

	October 1, 2011	January 1, 2011
Exercise of options outstanding	963,594	1,101,594
Future grants of options or shares	435,600	415,600
Shares reserved for employee stock purchase plan	276,957	320,364
Total	1,676,151	1,837,558

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

11. Stock Based Compensation

At October 1, 2011, the Company had five stock-based employee compensation plans. The Company measures the fair value of stock options, if and when granted, based on the Black-Scholes method and using the closing market price of the Company's common stock on the date of grant. Grants vest over periods ranging from one to three years and expire within 10 years of issuance. Stock-based compensation expense related to awards is amortized in accordance with applicable vesting periods using the straight-line method.

Stock-based compensation expense of $69 and $240 was recognized for the thirty-nine week periods ended October 1, 2011 and October 2, 2010, respectively.

No options were granted during the thirty-nine week period ended October 1, 2011 and 20,000 options were granted during the thirty-nine week period ended October 2, 2010.

Activity regarding outstanding options for the thirty-nine week period ended October 1, 2011 is as follows:

	All Stock Options Outstanding	
	Shares	Weighted Average Exercise Price
Options outstanding as of January 1, 2011	1,101,594	$4.10
Options exercised	(92,500)	$3.63
Options forfeited/cancelled	(45,500)	$3.13
Options outstanding as of October 1, 2011	963,594	$4.19
Options outstanding price range at October 1, 2011	$0.95 - $9.81	$4.19
Options exercisable as of October 1, 2011	821,400	$4.54
Intrinsic value of outstanding stock options as of October 1, 2011	$515	
Intrinsic value of stock options exercised for the thirty-nine week period ended October 1, 2011	$173	

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 October 1, 2011, options to purchase 22,455 shares of common stock granted under the 1992 Plan were outstanding.

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

11. Stock Based Compensation (Continued)

Incentive Stock Option Plans (Continued)

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 October 1, 2011, options to purchase 10,000 shares of common stock granted under the 1994 Plan were outstanding.

1996 Executive Stock Option Plan (the 1996 Plan)

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provided for the issuance of up to 1,250,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006, at which time the 1996 Plan expired. Options 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 October 1, 2011, options to purchase 553,045 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, provided for the issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors may award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determines the vesting period at the time of grant. As of October 1, 2011, options to purchase 253,194 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 grant thereunder.

2007 Omnibus Equity Compensation Plan (the 2007 Plan)

The 2007 Plan, approved by the Company's stockholders in June 2007, provides for the issuance of up to 700,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. No more than 350,000 shares of common stock in the aggregate may be issued pursuant to grants of stock awards, stock units, performance shares and other stock-based awards. No more than 300,000 shares of common stock with respect to awards may be granted to any individual during any fiscal year. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of October 1, 2011, 435,600 shares of common stock were available for future grants under the 2007 Plan, and options to purchase 124,900 shares of common stock granted under the 2007 Plan were outstanding.

As of October 1, 2011, the Company had approximately $62 of total unrecognized compensation cost related to non-vested awards granted under the Company's various stock-based plans, which the Company expects to recognize through fiscal 2013. These amounts do not include the cost of any additional options that may be granted in future periods or reflect any potential changes in the Company's forfeiture rate.

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

11. Stock Based Compensation (Continued)

Employee Stock Purchase Plan

The Company implemented the 2001 Employee Stock Purchase Plan with stockholder approval, effective January 1, 2001. Such Plan was subsequently amended, pursuant to stockholder approval where required, effective June 18, 2009 and September 16, 2009 (the 2001 Employee Stock Purchase Plan, as so amended, the "Purchase Plan"). Under the Purchase Plan, employees meeting certain specific employment qualifications are eligible to participate and can purchase shares of common stock semi-annually through payroll deductions at the lower of 85% of the fair market value of the stock at the commencement or end of the offering period. The purchase plan permits eligible employees to purchase shares of common stock through payroll deductions for up to 10% of qualified compensation. The Company has two offering periods in the Purchase Plan coinciding with the Company's first two fiscal quarters and the last two fiscal quarters. Actual shares are issued on the first day of the subsequent offering period for the prior offering period payroll deductions. The number of shares issued during the thirty-nine week period ended October 1, 2011 was 43,407. As of October 1, 2011, there were 276,957 shares available for issuance under the Purchase Plan.

12. Treasury Stock Transactions

Our Board of Directors instituted a share repurchase program in February 2010, which authorized the repurchase of up to $7.5 million of the Company's outstanding shares of our common stock at prevailing market prices, from time to time over the subsequent 12 months. In February 2011, the share repurchase program was extended through February 2013. During the thirty-nine week period ended October 1, 2011, the Company repurchased 396,539 shares at a total cost of approximately $1.8 million, or an average price of $4.64 per share. Since the inception of its share repurchase program and through October 1, 2011, the Company has purchased 445,936 shares at a total cost of approximately $2.0 million, or an average price of $4.58.

13. New Accounting Standards

In September 2011, the FASB amended guidance on the annual goodwill impairment test performed by the Company. Under the amended guidance, the Company will have the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than the carrying value, the quantitative impairment test is required. If the Company believes the fair value of a reporting unit is greater than the carrying value, no further testing is required. A company can choose to perform the qualitative assessment on some or none of its reporting entities. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted and we expect to adopt this guidance during the fourth quarter of 2011. We do not expect this accounting standard to have a material impact on our condensed consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB and SEC and/or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

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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)

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 1, 2011.)

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. In September 2010, the Company sold its light industrial and clerical staffing business located in southern California and doing business under the name Intertec. See Note 15 "Discontinued Operations" to the Consolidated Financial Statements included in this report for further details of these discontinued operations. Such businesses have been classified as discontinued operations for all periods presented.

In prior financial statement filings, the Intertec business unit was grouped with its Specialty Health Care business unit in the Company's formerly named Commercial Services segment. All current and prior periods have been restated to include only the Specialty Health Care segment operating results.

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 October 1, 2011	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	$12,537	$15,609	$5,413	$ -	$33,559
Cost of services	9,238	11,689	3,534	-	24,461
Selling, general and administrative	3,437	2,764	1,876	-	8,077
Depreciation and amortization	109	139	31	-	279
Operating (loss) income	($247)	$1,018	($28)	$ -	$742
Total assets	$14,508	$32,366	$7,096	$39,960	$93,930
Capital expenditures	$ -	$77	$ -	$ -	$77

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

Thirteen Week Period Ended October 2, 2010	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	$17,072	$15,564	$4,853	$ -	$37,489
Cost of services	12,365	11,266	3,235	-	26,866
Selling, general and administrative	4,244	2,616	1,550	-	8,410
Depreciation and amortization	127	174	30	-	331
Operating income	$336	$1,508	$38	$ -	$1,882
Total assets	$14,164	$23,789	$7,291	$40,446	$85,690
Capital expenditures	$1	$26	$ -	$30	$57

Thirty-Nine Week Period Ended October 1, 2011	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	$41,224	$47,614	$19,941	$ -	$108,779
Cost of services	29,815	35,141	13,215	-	78,171
Selling, general and administrative	10,987	8,504	5,428	-	24,919
Depreciation and amortization	336	428	103	-	867
Operating income	$86	$3,541	$1,195	$ -	$4,822
Total assets	$14,508	$32,366	$7,096	$39,960	$93,930
Capital expenditures	$2	$158	$ -	$75	$235

Thirty-Nine Week Period Ended October 2, 2010	Information Technology	Engineering	Specialty Health Care	Corporate	Total

Revenue	$56,096	$50,617	$18,916	$ -	$125,629
Cost of services	40,344	37,513	12,347	-	90,204
Selling, general and administrative	14,327	8,122	5,225	-	27,674
Depreciation and amortization	387	526	98	-	1,011
Operating income	$1,038	$4,456	$1,246	$ -	$6,740
Total assets	$14,164	$23,789	$7,291	$40,446	$85,690
Capital expenditures	$12	$37	$ -	$35	$84

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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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 thirty-nine week periods ended October 1, 2011 and October 2, 2010 are as follows:

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Revenues				
U. S.	$27,400	$30,273	$88,947	$101,824
Canada	5,602	6,354	18,217	21,231
Puerto Rico	557	840	1,593	2,457
Ireland	-	22	22	117
	$33,559	$37,489	$108,779	$125,629

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

	October 1, 2011	January 1, 2011
Total assets		
U. S.	$78,038	$69,931
Canada	15,013	11,734
Puerto Rico	621	1,010
Ireland	258	337
	$93,930	$83,012

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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)

15. Discontinued Operations

In September 2010, the Company sold the fixed and intangible assets associated with its light industrial and clerical staffing business located in southern California and doing business under the name Intertec. Accounts receivable and certain short term liabilities of this business unit were retained by the Company. The Company received cash of $400 and recognized a gain of $143 on the sale of Intertec during the 2010 fiscal year. The Intertec business unit had been grouped with its Specialty Health Care business unit in the Company's formerly named Commercial Services segment. The Company may experience continued operating losses from the clerical staffing business if future workers compensation losses exceed the Company's reserves but the Company does not presently anticipate any material losses, if any.

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 may experience continued losses in its Oracle business unit as a result of representations and warranties made in association with certain completed projects in excess of accruals but the Company does not anticipate any material losses, if any.

The Intertec and Oracle business units have been classified as discontinued operations for all periods presented.

The net assets and liabilities of discontinued operations consist of:

		October 1, 2011	January 1, 2011
Assets:			
	Accounts receivable, net	$2	$2
Total assets		$2	$2
Liabilities:			
	Accounts payable and accrued expenses	$11	$45
Total liabilities		$11	$45

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

15. Discontinued Operations (Continued)

The loss from discontinued operations consists of:

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Revenues	$ -	$3,425	$ -	$11,689
Cost of services	-	2,999	-	10,734
Gross profit	-	426	-	955
Operating costs and expenses				
Selling, general and administrative	-	462	-	1,732
Depreciation	-	5	-	41
Loss on disposal of fixed assets	-	-	-	269
	-	467	-	2,042
Operating income (loss) from discontinued operations	-	(41)	-	(1,087)
Income tax (expense) benefit	-	35	-	495
Net income (loss) from discontinued operations	-	(6)	-	(592)
Gain on sale of discontinued operations, net of tax expense	-	78	-	78
Net gain (loss) from discontinued operations	$ -	$72	$ -	($514)

16. Income Taxes

The effective income tax rate for income from continuing operations was 34.9% for the thirty-nine week period ended October 1, 2011. The current period effective tax rate is comprised of an estimated effective tax rate of 37.6% in the United States offset by an effective tax rate of 22.7% in Canada (due to income tax abatements in Canada in 2011). Income tax expense in the United States for the period ended October 1, 2011 was reduced due to a discreet net benefit of $218 resulting from a prior year amended return. The Company also experienced an approximate loss of $0.2 million in Ireland whereby the net effect of a full valuation allowance yielded no tax benefit and increased the Company's consolidated effective tax rate.

For the thirty-nine week period ended October 2, 2010, the Company recognized a nonrecurring current tax benefit of $1.2 million due to the discrete nature of the goodwill and intangible asset tax deduction for the liquidation of its Oracle business unit subsidiary described in Note 15 to the Consolidated Financial Statements. The Company recognized an impairment of the book goodwill and intangible assets associated with this subsidiary in 2008. This was offset by regular tax provision expense of $2.6 million on current taxable income from continuing operations, resulting in a cumulative income tax benefit of approximately $1.4 million (not including the tax benefit from discontinued operations). Excluding the tax benefit from the nonrecurring goodwill and intangible asset tax deduction, the Company's recognized effective tax rate for the thirty-nine week period ended October 2, 2010 was 39.8%.

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

17. Contingencies

From time to time, the Company is a defendant or plaintiff in various legal actions which arise in the normal course of business. As such, the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of losses and possible recoveries. The Company may not be covered by insurance as it pertains to some or all of these matters. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. Once established, a provision may change in the future due to new developments or changes in circumstances, and could increase or decrease the Company’s earnings in the period that the changes are made. Included in the Company’s accounts payable and accrued expenses is a provision for losses from legal matters aggregating approximately $0.4 million and $0.6 million as of October 1, 2011 and January 1, 2011, respectively. Asserted claims in these matters seek approximately $7.3 million in damages as of October 1, 2011.

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

18. Stockholder Rights Plan

On June 8, 2010, the Board of Directors of the Company approved a stockholder rights plan and declared a dividend distribution of one Right for each outstanding share of Common Stock of the Company. Each Right entitles the holder to purchase from the Company a unit consisting of one one-hundredth of a share (a “Unit”) of the Series A Junior Participating Preferred Shares of the Company. The dividend was declared on June 8, 2010 (the "Rights Dividend Declaration Date") to stockholders of record as of the close of business on June 21, 2010 (the “Record Date”). Each Right will entitle the holder to purchase from the Company, upon the occurrence of certain events, one Unit at a purchase price of $13.50.

Generally, if any person or group acquires beneficial ownership of 15% or more of the Company's outstanding Common Stock (“Stock Acquisition”), each Right (other than Rights held by such acquiring person or group) will be exercisable at the $13.50 purchase price. Upon the acquisition of 50% of the Company, the Board may exchange all or part of the Rights for Common Shares having a value equal to the spread between the value of the Common Shares issuable upon exercise of a Right and the exercise price. At any time until ten days following the Stock Acquisition date, the Company may redeem the Rights at a price of $.001 per Right. The Rights expired on June 21, 2011; the Board could adopt a similar plan in the future should it deem it to be in the best interest of the Company.

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

Private Securities Litigation Reform Act Safe Harbor Statement

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

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

Overview

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

The Company experienced a significant decrease in revenues during the thirty-nine week period ended October 1, 2011 as compared to the comparable prior year period. The Company believes that the revenue decrease was primarily attributable to subpar performance in sales efforts (which the Company continues to take steps to try to remediate) in the Company's Information Technology segment and declines, resulting from general economic conditions, in the spending of its major Engineering segment clients, as further discussed in the Segment Discussion below. While the Company believes general economic conditions and overall market conditions for its Information Technology and Specialty Health Care segments have improved slightly from their recessionary lows, the Company is cautious regarding expectations for the remainder of 2011 as the Company believes that any general economic or market recovery may be slow and/or tenuous.

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

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

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

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

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

Overview (Continued)

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

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

Critical Accounting Policies

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

Revenue Recognition

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

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

Revenue Recognition (Continued)

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, 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.

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.

Net Revenue
The Company records revenue on a "net" basis on relevant engineering and construction management projects, which require subcontractors or transit costs. In those situations, the Company charges the client a management fee, which is reported as net revenue when earned. Under such contracts, the Company is not required to pay the subcontractor until several days after payment is received from the client. The total gross billings, including both transit cost billings and the Company's earned fees, for the thirteen week and thirty-nine week periods ended October 1, 2011 were $10.2

million and $13.4 million, respectively for which the Company recognized $1.4 million and $3.1 million respectively of its net management fee as revenue.

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

Accounts Receivable

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

Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company is required to 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 is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducts its annual goodwill impairment test as of the last day of the Company's fiscal November each year, or more frequently if indicators of impairment exist. The Company periodically analyzes whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in share price and market capitalization, a decline in expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition 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 2010 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. There can be no assurance that future tests of goodwill impairment will not result in impairment charges.

Long-Lived and Intangible Assets

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

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.

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

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 October 1, 2011, the Company had short term deferred tax assets of $0.8 million and total long term net deferred income tax assets of $2.9 million. The short term deferred tax assets primarily represent the tax effect of accrued expenses which will be deductible for tax purposes within a twelve month period. The long term deferred tax assets represent the tax effect of temporary differences for the GAAP versus tax amortization of acquisitions made in prior periods. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

The Company conducts its operations in multiple tax jurisdictions in the United States, Puerto Rico, 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 2007. The Company's federal income tax returns have been examined through 2007. As of October 1, 2011, 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.

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

Forward-looking Information (Continued)

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

Thirteen Week Period Ended October 1, 2011 Compared to Thirteen Week Period Ended October 2, 2010

A summary of operating results for the thirteen week periods ended October 1, 2011 and October 2, 2010 is as follows (in thousands):

	October 1, 2011		October 2, 2010	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	$33,559	100.0	$37,489	100.0
Cost of services	24,461	72.9	26,866	71.7
Gross profit	9,098	27.1	10,623	28.3
Selling, general and administrative	8,077	24.1	8,410	22.4
Depreciation and amortization	279	0.8	331	0.9
	8,356	24.9	8,741	23.3
Operating income	742	2.2	1,882	5.0
Other income, net	1	0.0	(13)	0.0
Income from continuing operations before income taxes	743	2.2	1,869	5.0
Income tax expense from continuing operations	19	0.0	698	2.0
Income from continuing operations	724	2.2	1,171	3.0
Income from discontinued operations, net of taxes	-	-	72	0.3
Net income	$724	2.2	$1,243	3.3

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The quarterly reporting periods ended October 1, 2011 and October 2, 2010 consisted of thirteen weeks each.

Revenues. Revenues decreased 10.5%, or $3.9 million, for the thirteen week period ended October 1, 2011 as compared to the thirteen week period ended October 2, 2010 (the "comparable prior year period"). Revenues decreased $4.5 million in the Information Technology segment, marginally increased in the Engineering segment, and increased

$0.6 million in the Specialty Health Care 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 October 1, 2011 Compared to Thirteen Week Period Ended October 2, 2010 (Continued)

Cost of Services. Cost of services decreased 9.0%, or $2.4 million, for the thirteen week period ended October 1, 2011 as compared to the comparable prior year period. The decrease in cost of services was primarily due to a decrease in revenues. Cost of services as a percentage of revenues increased to 72.9% for the thirteen week period ended October 1, 2011 from 71.7% for the comparable prior year period. The increase in cost of services as a percentage of revenues was primarily due to a reduction in higher margin project work in the Company's Information Technology and Engineering segments and an increase in certain statutory payroll tax rates. Management anticipates the ratio of cost of sales to revenues for the remainder of fiscal 2011 to remain relatively comparable to that in the thirty-nine week period ended October 1, 2011, adjusted for increased vacation and holidays in the fourth quarter.

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses decreased 4.0%, or $0.3 million, for the thirteen week period ended October 1, 2011 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 24.1% for the thirteen week period ended October 1, 2011 as compared to 22.4% for the comparable prior year period. The decrease in SGA expenses was primarily due to a concerted effort by the Company to reduce SGA expenses. The primary components of the reduction include labor and related expenses and professional fees. The increase to SGA expenses as a percentage of revenues was primarily due to the decrease in revenues. Assuming no material changes to revenue, management expects SGA expenses for the remainder of fiscal 2011 to remain generally consistent with the SGA expenses for the thirty-nine week period ended October 1, 2011.

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

Income Tax Expense From Continuing Operations. The Company experienced negligible income tax expense from continuing operations for the thirteen week period ended October 1, 2011 as compared to $0.7 million for the comparable prior year period. Income tax expense for the thirteen week period ended October 1, 2011 was reduced due to a discreet benefit of $218 resulting from a prior year amended return. Before considering this adjustment, the consolidated effective income tax rate for income from continuing operations was 31.8% for the thirteen week period ended October 1, 2011 as compared to 37.3% for the comparable prior year period (before the effect of the first quarter 2010 goodwill and intangible asset deduction more fully described in Note 16 to the Consolidated Financial Statements). The current period effective tax rate is comprised of an estimated effective tax rate of 43.4% in the United States offset by a lower effective tax rate in Canada due to year to date accrual adjustments. Management anticipates that the effective tax rate for the remainder of fiscal 2011 will approximate the adjusted effective tax rate for the thirty-nine week period ended October 1, 2011.

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

Thirteen Week Period Ended October 1, 2011 Compared to Thirteen Week Period Ended October 2, 2010 (Continued)

Discontinued Operations. See Note 15 to the Consolidated Financial Statements included in this report for a description of discontinued operations. The Company had no activity in its discontinued operations during the thirteen week period ended October 1, 2011. The Company does not anticipate material operating losses from discontinued operations for the balance of fiscal 2011.

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

Information Technology

Information Technology revenues of $12.6 million in the thirteen week period ended October 1, 2011 decreased $4.5 million, or 26.6%, as compared to the comparable prior year period. The Company believes the decrease in revenue was primarily attributable to poor execution by its sales generation team, which the Company continues to take steps to try to remediate. In particular, the Information Technology segment experienced a $0.9 million decrease from its Michigan and Ohio offices and a $0.8 million decrease from its Life Sciences clients. The Information Technology segment experienced an operating loss of $0.2 million for the thirteen week period ended October 1, 2011 as compared to an operating profit $0.3 million for the comparable prior year period. The decrease in operating income was primarily attributable to a decrease in revenues.

Engineering

Engineering revenues of $15.6 million in the thirteen week period ended October 1, 2011 increased marginally as compared to the comparable prior year period. The Engineering segment operating income was $1.0 million for the thirteen week period ended October 1, 2011 as compared to $1.5 million for the comparable prior year period. The decrease in operating income was primarily due to an increase in cost of services as a percentage of revenues and a higher allocation of corporate SGA expense. The increase in cost of services as a percentage of revenues is primarily due to less higher margin project work in the current period. Corporate SGA expense is allocated based on revenues and the Engineering revenues as a percentage of total revenues significantly increased in the current period.

Specialty Health Care

Specialty Health Care revenues of $5.4 million in the thirteen week period ended October 1, 2011, increased $0.6 million, or 11.5%, as compared to the comparable prior year period. The Specialty Health Care segment experienced a negligible operating loss for the thirteen week period ended October 1, 2011 as compared to negligible operating income for the comparable prior year period.

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

Thirty-Nine Week Period Ended October 1, 2011 Compared to Thirty-Nine Week Period Ended October 2, 2010

A summary of operating results for the thirty-nine week periods ended October 1, 2011 and October 2, 2010 is as follows (in thousands):

	October 1, 2011		October 2, 2010	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	$108,779	100.0	$125,629	100.0
Cost of services	78,171	71.9	90,204	71.8
Gross profit	30,608	28.1	35,425	28.2
Selling, general and administrative	24,919	22.9	27,674	22.0
Depreciation and amortization	867	0.8	1,011	0.8
	25,786	23.7	28,685	22.8
Operating income	4,822	4.4	6,740	5.4
Other income (expense), net	5	0.0	(53)	0.0
Income from continuing operations before income taxes	4,827	4.4	6,687	5.4
Income tax expense from continuing operations	1,686	1.5	1,439	1.1
Income from continuing operations	3,141	2.9	5,248	4.3
Loss from discontinued operations, net of taxes	-	-	(514)	(0.5)
Net income	$3,141	2.9	$4,734	3.8

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 October 1, 2011 and October 2, 2010 consisted of thirty-nine weeks each.

Revenues. Revenues decreased 13.4%, or $16.9 million, for the thirty-nine week period ended October 1, 2011 as compared to the thirty-nine week period ended October 2, 2010 (the "comparable prior year period"). Revenues decreased $14.9 million in the Information Technology segment, decreased $3.0 million in the Engineering segment, and increased $1.0 million in the Specialty Health Care 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)

Thirty-Nine Week Period Ended October 1, 2011 Compared to Thirty-Nine Week Period Ended October 2, 2010 (Continued)

Cost of Services. Cost of services decreased 13.3%, or $12.0 million, for the thirty-nine week period ended October 1, 2011 as compared to the comparable prior year period. The decrease in cost of services was primarily due to a decrease in revenues. Cost of services as a percentage of revenues increased slightly to 71.9% for the thirty-nine week period ended October 1, 2011 from 71.8% for the comparable prior year period. Management anticipates the ratio of cost of sales to revenues for the remainder of fiscal 2011 to remain relatively comparable to that in the thirty-nine week period ended October 1, 2011, adjusted for increased vacation and holidays in the fourth quarter.

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses decreased 10.0%, or $2.8 million, for the thirty-nine week period ended October 1, 2011 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 22.9% for the thirty-nine week period ended October 1, 2011 as compared to 22.0% for the comparable prior year period. The decrease in SGA expenses was primarily due to a concerted effort by the Company to reduce SGA expenses. The primary components of the reduction include labor and related expenses and professional fees. The increase to SGA expenses as a percentage of revenues was primarily due to the decrease in revenues. Assuming no material changes to revenue, management expects SGA expenses for the remainder of fiscal 2011 to remain generally consistent with the SGA expenses for the thirty-nine week period ended October 1, 2011.

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

Income Tax Expense From Continuing Operations. The Company experienced income tax expense from continuing operations of $1.7 million for the thirty-nine week period ended October 1, 2011 as compared to $1.4 million for the comparable prior year period. Income tax expense for the thirty-nine week period ended October 1, 2011 was reduced due to a discreet benefit of $218 resulting from a prior year amended return. Before considering this adjustment, the consolidated effective income tax rate for income from continuing operations was 39.4% for the thirty-nine week period ended October 1, 2011 as compared to 39.8% for the comparable prior year period (before the effect of the first quarter 2010 goodwill and intangible asset deduction more fully described in Note 16 to the Consolidated Financial Statements). The current period effective tax rate is comprised of an estimated effective tax rate of 43.4% in the United States offset by an effective tax rate of 22.7% in Canada (due to income tax abatements in Canada in 2011). The Company also experienced an approximate loss of $0.2 million in Ireland whereby the net effect of a full valuation allowance yielded no tax benefit and increased the Company's consolidated effective tax rate. Management anticipates that the effective tax rate for the remainder of fiscal 2011 will approximate the adjusted effective tax rate for the thirty-nine week period ended October 1, 2011.

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

Thirty-Nine Week Period Ended October 1, 2011 Compared to Thirty-Nine Week Period Ended October 2, 2010 (Continued)

Discontinued Operations. See Note 15 to the Consolidated Financial Statements included in this report for a description of discontinued operations. The Company had no activity in its discontinued operations during the thirty-nine week period ended October 1, 2011 as compared to a loss, net of tax benefit of $0.5 million for the comparable prior year period. The Company does not anticipate material operating losses from discontinued operations for the balance of fiscal 2011.

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

Information Technology

Information Technology revenues of $41.2 million in the thirty-nine week period ended October 1, 2011 decreased $14.9 million, or 26.5%, as compared to the comparable prior year period. The Company believes the decrease in revenue was primarily attributable to poor execution by its sales generation team, which the Company continues to take steps to try to remediate. In particular, the Information Technology segment experienced a $3.4 million decrease from its Michigan and Ohio offices and a $4.4 million decrease from its Life Sciences clients. The Life Sciences group experienced a decrease of $4.0 million from two pharmaceutical clients whose projects ended or were significantly curtailed at the end of the second quarter in 2010. The Information Technology segment operating income was $0.1 million for the thirty-nine week period ended October 1, 2011 as compared to $1.0 million for the comparable prior year period. The decrease in operating income was primarily due to the decrease in revenues.

Engineering

Engineering revenues of $47.6 million in the thirty-nine week period ended October 1, 2011 decreased $3.0 million, or 5.9%, as compared to the comparable prior year period. The decrease in revenues was primarily attributable to the timing of significant projects for the Engineering segments major clients. The Engineering segment operating income was $3.5 million for the thirty-nine week period ended October 1, 2011 as compared to $4.5 million for the comparable prior year period. The decrease in operating income was primarily due to lower revenues and a higher allocation of corporate SGA expense. Corporate SGA expense is allocated based on revenues and the Engineering segment revenues as a percentage of total revenues significantly increased in 2011. Revenues decreased on a comparative basis due to periodic or cyclical changes in demand from several large clients. In particular, the Company believes the demand from several major Engineering clients in the twenty-six weeks ended July 3, 2010 was unusually high.

Specialty Health Care

Specialty Health Care revenues of $19.9 million in the thirty-nine week period ended October 1, 2011 increased $1.0 million, or 5.4%, as compared to the comparable prior year period. The Specialty Health Care segment operating income was $1.2 million for both the thirty-nine week period ended October 1, 2011 and the comparable prior year period.

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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):

	Thirty-Nine Week Periods Ended	
	October 1, 2011	October 2, 2010
Cash provided by (used in):		
Operating activities	$9,843	$15,656
Investing activities	($344)	$168
Financing activities	($1,576)	$137

Operating Activities

Operating activities provided $9.8 million of cash for the thirty-nine week period ended October 1, 2011 as compared to providing $15.7 million in the comparable prior year period. The major components of the cash provided by operating activities in the thirty-nine week period ended October 1, 2011 and the comparable prior year period are as follows: net income, accounts receivable, accounts payable and accrued expenses, accrued payroll and related costs and the net difference between transit accounts receivable and transit accounts payable.

Net income for the thirty-nine week period ended October 1, 2011 was $2.9 million as compared to $4.7 million for the comparable prior year period. A decrease in accounts receivable in the thirty-nine week period ended October 1, 2011 provided $2.6 million as compared to a decrease in accounts receivable during the thirty-nine week period ended October 2, 2010 which provided $5.8 million. The Company primarily attributes the decrease in accounts receivables for the thirty-nine week period ended October 1, 2011 to decreases in its billed and unbilled accounts receivable offset by an increase in its work-in-progress accounts receivable. The decrease in billed and unbilled accounts receivable is due to a decrease in revenues for the thirteen week period ended October 1, 2011 as compared to the prior two quarters and the Company's focus on reducing its sales days outstanding in its accounts receivable. The increase in work-in-progress is primarily due to timing differences related to billings in the Company's Engineering segment.

A decrease in accounts payable and accrued expenses in the thirty-nine week period ended October 1, 2011 used $0.7 million as compared to $0.3 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 thirty-nine week period ended October 1, 2011 provided $1.5 million as compared to providing $2.9 million in the comparable prior year period. The increase in accrued payroll and related costs during the thirty-nine week period ended October 1, 2011 primarily relates to the timing of the Company's biweekly payroll.

The net difference between transit accounts receivable and transit accounts payable provided $2.4 million in cash from operations. It is anticipated that this amount will reverse during the thirteen weeks ended December 31, 2011.

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

Liquidity and Capital Resources (Continued)

Investing Activities
Investing activities used cash of $0.3 million for the thirty-nine week period ended October 1, 2011 as compared to providing cash of $0.2 million for the comparable prior year period. The increase in cash used by investing activities was attributable to $0.1 million in payments related to the acquisition of PSG, increases to deposits for leased office space and increased expenditures for property and equipment. The Company anticipates upgrading its ERP system in late 2011 or early 2012 and depending on what system is selected may see a significant rise in expenditures for property and equipment. Additionally, the Company's Engineering segment may purchase several pieces of equipment totaling $0.5 million for one of its operating divisions.

Financing Activities
Financing activities consisted of using $1.6 million for the thirty-nine week period ended October 1, 2011 as compared to providing $0.1 million for the comparable prior year period. The primary use of cash was for the Company's share repurchase program.

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"). The Revolving Credit Facility was amended on October 24, 2011 to extend the maturity date to November 30, 2011. 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 November 30, 2011. The Company intends to seek to extend or replace the Revolving Credit Facility prior to such time if it is determined that doing so would be in alignment with the Company's financing needs.

There were no borrowings during the thirty-nine week periods ended October 1, 2011 and October 2, 2010. At October 1, 2011 and January 1, 2011, there were letters of credit outstanding for $0.9 million. At October 1, 2011, the Company had availability for additional borrowings under the Revolving Credit Facility of $14.1 million.

As of October 1, 2011, $3.5 million of the $32.6 million (on the Consolidated Balance Sheet) of cash and cash equivalents was held by foreign subsidiaries.

Commitments
The Company anticipates that its primary uses of capital in future periods will be for working capital purposes. Funding for any long-term and short-term capital requirements as well as future acquisitions will be derived from one or more of the Revolving Credit Facility (or a replacement thereof), funds generated through operations or future financing transactions. The Company is subject to legal proceedings and claims that arise from time to time in the ordinary course of its business, 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.

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

Liquidity and Capital Resources (Continued)

Commitments - (Continued)
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.

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 late 2011 or early 2012. Additionally, the Company believes that its Engineering segment will purchase several pieces of equipment totaling approximately $0.5 million for one of its operating divisions. 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
2011 (after October 1, 2011)	$931
2012	2,695
2013	1,168
2014	319
2015	112
Total	$5,225

The Company has one active acquisition agreement whereby future contingent consideration may be earned and paid (PSG, acquired in 2009). In connection with the PSG acquisition, the Company is obligated to pay future contingent consideration to the sellers upon the acquired business achieving certain earnings targets through the end of the Company's fiscal 2013. 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 October 1, 2011, which relate to the PSG acquisition, could result in the following maximum Deferred Consideration payments:

Year Ending	Amount
	$48

December 31, 2011	
December 29, 2012	164
December 28, 2013	184
Maximum deferred consideration	$396

The Company cannot predict future Deferred Consideration payments with any certainty. Earnouts, if any, cannot be estimated with any certainty and as such are not included above. Future Earnouts paid, if any, are not likely to be material.

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 October 1, 2011, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Presently the impact of a 10% (approximately 90 basis points) increase in interest rates on its variable debt (using an incremental borrowing rate) would have a relatively nominal impact on the Company's results of operations. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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

ITEM 1. LEGAL PROCEEDINGS

See discussion of Contingencies in Note 17 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 1, 2011, as updated in the Company's Quarterly Report for the fiscal quarter ended October 1, 2011.

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

The following table provides information relating to the Company's repurchases of common stock during the thirteen week period ended October 1, 2011 under the share repurchase program authorized by our Board of Directors in February 2010 and extended in February 2011.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July 3 – August 2	12,374	$5.23	12,374	$6,320,000
August 3 – September 2	75,094	$4.60	75,094	$5,974,000
September 3 – October 1	114,530	$4.53	114,530	$5,455,000
Total	201,998	$4.60	201,998	$5,455,000

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

10.1	Amendment, dated as of July 21, 2011, to Amended and Restated Loan and Security Agreement dated as of February 19, 2009, by and among the Company and all of its subsidiaries, Citizens Bank of Pennsylvania, a Pennsylvania state chartered bank, in its capacity as administrative agent and arranger, and Citizens Bank of Pennsylvania, as lender.
31.1	Certification of Chairman, President and Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chairman, President and Chief Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)
32.2	Certification of Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Documents
101.DEF*	XBRL Taxonomy Definition Linkbase Document

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

RCM TECHNOLOGIES, INC.

SIGNATURES

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

RCM Technologies, Inc.

Date: November 7, 2011

By: /s/ Leon Kopyt

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

Date: November 7, 2011

By: /s/ Kevin Miller

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