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.

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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
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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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					