

RCM TECHNOLOGIES INC  
Form 10-Q  
November 06, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2014

OR

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

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

Commission file number: 1-10245

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

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

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

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

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

NO

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

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

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

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

(Do not check if a smaller reporting company)

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

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

Common Stock, \$0.05 par value, 12,554,551 shares outstanding as of November 5, 2014.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

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## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

September 27, 2014 and December 28, 2013

(In thousands, except share and per share amounts)

|   | September<br>27,<br>2014<br>(Unaudited) | December<br>28,<br>2013 |
|---|---|-------------------------|
| Current assets:   |   |                         |
| Cash and cash equivalents   | \$8,305                                 | \$9,317                 |
| Accounts receivable, net  | 60,529                                  | 55,726                  |
| Transit accounts receivable   | 6,937                                   | 3,953                   |
| Deferred income tax assets, domestic  | 981                                     | 1,833                   |
| Prepaid expenses and other current assets   | 2,300                                   | 1,875                   |
| Total current assets  | 79,052                                  | 72,704                  |
| Property and equipment, net   | 3,445                                   | 2,291                   |
| Other assets:   |   |                         |
| Deposits  | 232                                     | 159                     |
| Goodwill  | 10,223                                  | 9,545                   |
| Intangible assets, net  | 219                                     | 216                     |
| Deferred income tax assets, domestic  | 1,169                                   | 1,609                   |
| Total other assets  | 11,843                                  | 11,529                  |
| Total assets  | \$94,340                                | \$86,524                |
| Current liabilities:  |   |                         |
| Accounts payable and accrued expenses   | \$8,712                                 | \$9,671                 |
| Transit accounts payable  | 7,021                                   | 3,905                   |
| Accrued payroll and related costs   | 9,221                                   | 10,104                  |
| Income taxes payable  | 703                                     | 404                     |
| Deferred income tax liability, foreign  | 127                                     | 132                     |
| Contingent consideration  | 310                                     | 523                     |
| Total current liabilities   | 26,094                                  | 24,739                  |
| Contingent consideration  | 1,072                                   | 407                     |
| Total liabilities   | 27,166                                  | 25,146                  |
| Stockholders' equity:   |   |                         |
| Preferred stock, \$1.00 par value; 5,000,000 shares authorized;<br>no shares issued or outstanding                                | -                                       | -                       |
| Common stock, \$0.05 par value; 40,000,000 shares authorized;<br>14,017,357 shares issued and 12,544,051 shares<br>outstanding at | 701                                     | 695                     |

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|  | September 27, 2014 and 13,892,265 shares<br>issued and 12,418,959 shares outstanding at<br>December 28, 2013 |          |
|--|--|----------|
| Additional paid-in capital   | 111,755  | 110,605  |
| Accumulated other comprehensive income   | 524  | 815      |
| Accumulated deficit  | (38,306)   | (43,237) |
| Treasury stock common (1,473,306 shares at September 27, 2014 and<br>December 28, 2013, at cost) | (7,500)  | (7,500)  |
| Stockholders' equity   | 67,174   | 61,378   |
| Total liabilities and stockholders' equity   | \$94,340   | \$86,524 |

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

Thirteen and Thirty-Nine Week Periods Ended September 27, 2014 and September 28, 2013

(Unaudited)

(In thousands, except per share amounts)

|                                       | Thirteen Weeks Ended |           | Thirty-Nine Weeks Ended |           |
|---------------------------------------|----------------------|-----------|-------------------------|-----------|
|                                       | September            | September | September               | September |
|                                       | 27,                  | 28,       | 27,                     | 28,       |
|                                       | 2014                 | 2013      | 2014                    | 2013      |
| Revenues                              | \$46,382             | \$41,320  | \$144,460               | \$124,929 |
| Cost of services                      | 33,221               | 30,636    | 106,087                 | 92,362    |
| Gross profit                          | 13,161               | 10,684    | 38,373                  | 32,567    |
| Operating costs and expenses          |                      |           |                         |           |
| Selling, general and administrative   | 9,991                | 8,584     | 29,488                  | 26,251    |
| Severance and other charges           | -                    | 15        | 104                     | 453       |
| Depreciation and amortization         | 337                  | 279       | 885                     | 829       |
|                                       | 10,328               | 8,878     | 30,477                  | 27,533    |
| Operating income                      | 2,833                | 1,806     | 7,896                   | 5,034     |
| Other (expense) income                |                      |           |                         |           |
| Interest expense and other, net       | (19)                 | (14)      | (45)                    | (36)      |
| Reduction in contingent consideration | -                    | -         | -                       | 92        |
| Gain on foreign currency transactions | 25                   | 10        | 26                      | 18        |
|                                       | 6                    | (4)       | (19)                    | 74        |
| Income before income taxes            | 2,839                | 1,802     | 7,877                   | 5,108     |
| Income tax expense                    | 962                  | 660       | 2,780                   | 1,536     |
| Net income                            | \$1,877              | \$1,142   | \$5,097                 | \$3,572   |
| Basic net earnings per share          | \$0.15               | \$0.09    | \$0.41                  | \$0.29    |
| Diluted net earnings per share        | \$0.15               | \$0.09    | \$0.40                  | \$0.29    |

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Thirty-Nine Week Periods Ended September 27, 2014 and September 28, 2013  
(Unaudited)  
(In thousands)

|  | September<br>27,<br>2014 | September<br>28,<br>2013 |
|--|--------------------------|--------------------------|
| Net income                                 | \$5,097                  | \$3,572                  |
| Foreign currency translation<br>adjustment | (457)                    | (348)                    |
| Comprehensive income                       | \$4,640                  | \$3,224                  |

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



RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF CHANGES IN  
 ACCUMULATED OTHER COMPREHENSIVE INCOME  
 Thirty-Nine Week Periods Ended September 27, 2014  
 (Unaudited)  
 (In thousands)

|   | Foreign<br>Currency<br>Items |
|---|------------------------------|
| Beginning balance   | \$815                        |
| Other comprehensive<br>income before<br>reclassifications                     | (457)                        |
| Amounts reclassified<br>from accumulated<br>other comprehensive<br>income (a) | 166                          |
| Net current-period<br>comprehensive income                                    | (291)                        |
| Ending balance  | \$524                        |

(a) The amounts represent residual foreign currency translation balances in our Cataract and Irish subsidiaries after these subsidiaries had been effectively liquidated.

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
Thirty-Nine Week Period Ended September 27, 2014  
(Unaudited)  
(In thousands, except share amounts)

|   | Common Stock |        | Additional | Accumulated   | Accumulated | Treasury Stock |           | Total    |
|---|--------------|--------|------------|---------------|-------------|----------------|-----------|----------|
|   | Issued       | Amount | Paid-in    | Other         | Deficit     | Shares         | Amount    |          |
|   | Shares       |        | Capital    | Comprehensive |             |                |           |          |
|   |              |        |            | Income        |             |                |           |          |
| Balance,<br>December 28,<br>2013                              | 13,892,265   | \$695  | \$110,605  | \$815         | (\$43,237)  | 1,473,306      | (\$7,500) | \$61,378 |
| Issuance of stock<br>under<br>employee stock<br>purchase plan | 67,092       | 3      | 336        | -             | -           | -              | -         | 339      |
| Translation<br>adjustment                                     | -            | -      | -          | (457)         | -           | -              | -         | (457)    |
| Issuance of stock<br>upon exercise of<br>stock options        | 58,000       | 3      | 263        | -             | -           | -              | -         | 266      |
| Share-based<br>compensation<br>expense                        | -            | -      | 551        | -             | -           | -              | -         | 551      |
| Reclass of<br>currency<br>translation                         | -            | -      | -          | 166           | (166)       | -              | -         | -        |
| Net income  | -            | -      | -          | -             | 5,097       | -              | -         | 5,097    |
| Balance,<br>September 27,<br>2014                             | 14,017,357   | \$701  | \$111,755  | \$524         | (\$38,306)  | 1,473,306      | (\$7,500) | \$67,174 |

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Thirty-Nine Week Periods Ended September 27, 2014 and September 28, 2013  
(Unaudited)  
(In thousands)

|   | September<br>27,<br>2014 | September<br>28,<br>2013 |
|---|--------------------------|--------------------------|
| Cash flows from operating activities:   |                          |                          |
| Net income  | \$5,097                  | \$3,572                  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                          |                          |
| Depreciation and amortization   | 885                      | 829                      |
| Changes in fair value of contingent consideration   | -                        | (92)                     |
| Stock-based compensation expense  | 551                      | 515                      |
| Provision for allowance for doubtful accounts   | 850                      | (519)                    |
| Deferred income tax expense   | 1,292                    | 518                      |
| Changes in assets and liabilities:  |                          |                          |
| Accounts receivable   | (5,645)                  | (11,055)                 |
| Transit accounts receivable   | (2,984)                  | 4,641                    |
| Prepaid expenses and other current assets   | (426)                    | 682                      |
| Accounts payable and accrued expenses   | (968)                    | 5,178                    |
| Transit accounts payable  | 3,115                    | (6,180)                  |
| Accrued payroll and related costs   | (882)                    | 1,764                    |
| Income taxes payable  | 299                      | 887                      |
| Total adjustments   | (3,913)                  | (2,832)                  |
| Net cash provided by (used in) operating activities   | 1,184                    | 740                      |
| Cash flows from investing activities:   |                          |                          |
| Property and equipment acquired   | (1,952)                  | (1,071)                  |
| Decrease in deposits  | (71)                     | 41                       |
| Net cash used in investing activities   | (2,023)                  | (1,030)                  |
| Cash flows from financing activities:   |                          |                          |
| Sale of stock for employee stock purchase plan  | 339                      | 259                      |
| Exercise of stock options   | 266                      | 98                       |
| Common stock repurchases  | -                        | (83)                     |
| Contingent consideration paid   | (313)                    | -                        |
| Net cash provided by financing activities   | 292                      | 274                      |
| Effect of exchange rate changes on cash and cash equivalents                                | (465)                    | (58)                     |
| Decrease in cash and cash equivalents   | (1,012)                  | (74)                     |
| Cash and cash equivalents at beginning of period  | 9,317                    | 14,123                   |
| Cash and cash equivalents at end of period  | \$8,305                  | \$14,049                 |

Supplemental cash flow information:

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Cash paid for:

|              |         |       |
|--------------|---------|-------|
| Interest     | \$51    | \$46  |
| Income taxes | \$1,346 | \$250 |

Non-cash investing activities:

|  |       |      |
|--|-------|------|
| Contingent consideration recorded, not yet paid, as part of business acquisition | \$765 | \$ - |
| Fixed assets acquired in acquisition   | \$26  | \$ - |

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

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

1. Basis of Presentation

The accompanying consolidated interim financial statements of RCM Technologies, Inc. and subsidiaries (“RCM” or the “Company”) are unaudited. The year-end consolidated balance sheet was derived from audited statements but does not include all disclosures required by accounting principles generally accepted in the United States. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the Company’s consolidated financial statements and the notes thereto for the year ended December 28, 2013 included in the Company’s Annual Report Form 10-K for such period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

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

Results for the thirteen and thirty-nine week periods ended September 27, 2014 are not necessarily indicative of results that may be expected for the full year.

2. Fiscal Year

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal year ended December 28, 2013 was a 52-week reporting year. The third fiscal quarters of 2014 and 2013 ended on the following dates, respectively:

| Period Ended       | Weeks in Quarter | Weeks in Year to Date |
|--------------------|------------------|-----------------------|
| September 27, 2014 | Thirteen         | Thirty-Nine           |
| September 28, 2013 | Thirteen         | Thirty-Nine           |

3. Use of Estimates and Uncertainties

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

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

The Company has risk participation arrangements with respect to workers compensation and health care insurance. The amounts included in the Company’s costs related to this risk participation are estimated and can vary

based on changes in assumptions, the Company's claims experience or the providers included in the associated insurance programs.

#### 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.

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

4. Accounts Receivable, Transit Accounts Receivable and Transit Accounts Payable

The Company's accounts receivable are comprised as follows:

|   | September<br>27,<br>2014 | December<br>28,<br>2013 |
|---|--------------------------|-------------------------|
| Billed  | \$46,018                 | \$35,415                |
| Accrued and unbilled                                | 6,022                    | 7,895                   |
| Work-in-progress                                    | 9,489                    | 13,394                  |
| Allowance for doubtful accounts and sales discounts | (1,000)                  | (978)                   |
| Accounts receivable, net                            | \$60,529                 | \$55,726                |

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

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) may engage subcontractors to provide construction or other services; b) typically earns a fixed percentage of the total project value; and c) assumes no ownership or risks of inventory. Under the terms of the agreements, the Company is typically not required to pay the subcontractor until after the corresponding payment from the Company's end-client is received. Upon invoicing the end-client on behalf of the subcontractor or staffing agency the Company records this amount simultaneously as both a "transit account receivable" and "transit account payable" as the amount when paid to the Company is due to and generally paid to the subcontractor within a few days. The Company typically does not pay a given transit account payable until the related transit account receivable is collected. The Company's transit accounts payable generally exceeds the Company's transit accounts receivable but absolute amounts and spreads fluctuate significantly from quarter to quarter in the normal course of business. The transit accounts receivable was \$6.9 million and related transit accounts payable was \$7.0 million, for a net liability of \$0.1 million, as of September 27, 2014. The transit accounts receivable was \$4.0 million and related transit accounts payable was \$3.9 million, for a negligible net asset, as of December 28, 2013.

5. Property and Equipment

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

Property and equipment are comprised of the following:

| September<br>27, | December<br>28, |
|------------------|-----------------|
|------------------|-----------------|

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|  | 2014    | 2013    |
|--|---------|---------|
| Equipment and furniture                            | \$2,567 | \$2,454 |
| Computers and systems                              | 6,509   | 5,670   |
| Leasehold improvements                             | 741     | 633     |
|  | 9,817   | 8,757   |
| Less: accumulated depreciation<br>and amortization | 6,372   | 6,466   |
| Property and equipment, net                        | \$3,445 | \$2,291 |



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)

The Company periodically writes off fully depreciated assets. The Company wrote off fully depreciated assets of \$916 and \$1,149 for the thirty-nine week periods ended September 27, 2014 and September 28, 2013, respectively.

6. Acquisitions

The Company has acquired numerous companies throughout its history and those acquisitions have generally included significant future contingent consideration relative to the total estimated purchase price.

Future Contingent Payments

As of September 27, 2014, the Company had two active acquisition agreements whereby additional contingent consideration may be earned: 1) effective July 1, 2012 the Company acquired certain assets of BGA, LLC (“BGA”); and 2) effective August 1, 2014 the Company acquired all of the stock of Point Comm, Inc. (“PCI”), an Ontario amalgamated corporation, as more fully described below. The Company cannot estimate future contingent payments with any certainty. However, the Company estimates future contingent payments at September 27, 2014 as follows:

| Period Ending                                      | BGA   | PCI     | Total |
|--|-------|---------|-------|
| January 3, 2015                                    | \$88  | \$ -    | \$88  |
| January 2, 2016                                    | 222   | 261     | 483   |
| December 31, 2016                                  | 307   | 197     | 504   |
| December 30, 2017                                  | -     | 307     | 307   |
| Estimated future contingent consideration payments | \$765 | \$1,382 | \$617 |

Actual future contingent payments may materially differ from the estimates above. Future contingent payments to be made to BGA and PCI are capped at cumulative maximums of \$2.7 million and \$2.0 million, respectively. The Company estimates future contingent consideration in payments based on forecasted performance and recorded the net present value of those expected payments as of September 27, 2014. The measurement is based on significant inputs that are not observable in the market, which “Fair Value Measurements and Disclosures” (ASU Topic 820-10-35) refers to as Level 3 inputs.

The Company paid \$0.3 million in contingent consideration during the thirty-nine week period ended September 27, 2014. The Company did not pay any contingent consideration in the comparable prior year period. There were no other changes to the fair value of the contingent consideration during the thirty-nine week period ended September 27, 2014.

PCI

Effective August 1, 2014, the Company purchased the stock of PCI. PCI is a Toronto, Canada based engineering company specializing in the design, installation, supervision and commissioning of high voltage electrical equipment in substations and power plants. PCI provides comprehensive design and engineering of substations at any voltage level, system studies, 3D implementation, site commissioning, project management, consulting and site management. RCM expects the purchase of PCI to complement and expand RCM’s engineering services offerings and provide RCM’s customers with a stronger depth of experienced engineering resources. The Company believes that the PCI assembled workforce consists of highly trained and experienced engineers that will greatly assist RCM in executing

future growth in revenues. The PCI acquisition will operate as part of the Company's Engineering segment. The PCI purchase consideration consisted of the following:

|  |       |
|--|-------|
| Assumption of current liabilities, net of current assets | \$7   |
| Contingent consideration, net present value              | 765   |
| Total consideration                                      | \$772 |

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

The shareholders of PCI are eligible to receive post-closing contingent consideration upon PCI exceeding certain base levels of operating income, potentially earned over three years and not to exceed a total of \$2.0 million cumulatively. The amount recorded for contingent consideration represents the acquisition date fair value of expected consideration to be paid based on PCI's forecasted operating income during the three year period. In order to prepare the unaudited Financial Statements included in its unaudited Form 10-Q for the thirteen weeks ended September 27, 2014, the Company estimated the expected future contingent consideration to be paid to the PCI shareholders. It is anticipated that such estimates will undergo further review and analysis as the Company prepares the audited financial statements to be included in its Form 10-K for the fiscal year ending January 3, 2015. While the Company anticipates that the estimated contingent consideration recorded as of September 27, 2014 may differ from the final estimated contingent consideration, the Company does not believe the difference, if any, will be material.

Estimated expected consideration was valued based on different possible scenarios for projected operating income. Each case was assigned a probability which was used to calculate an estimate of the forecasted future payments. Then a discount rate was applied to these forecasted future payments to determine the acquisition date fair value to be recorded. At the time of the acquisition, the book and tax basis of assets and liabilities acquired are approximately the same.

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

|                        |       |
|------------------------|-------|
| Fixed assets           | \$26  |
| Restricted covenants   | 23    |
| Customer relationships | 45    |
| Goodwill               | 678   |
| Total consideration    | \$772 |

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

7. Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company is required to assess the carrying value of its reporting units that contain goodwill at least on an annual basis. The Company has the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than the carrying value, the quantitative impairment test is required. The Company formally assesses these qualitative factors, and if necessary, conducts its annual goodwill impairment test as of the last day of the Company's fiscal November each year or if indicators of impairment exist. During all periods presented, the Company determined that the existing qualitative factors did not suggest that an impairment of goodwill exists. Since there have been no indicators of impairment, the Company has not performed a quantitative impairment test.

The changes in the carrying amount of goodwill for the thirty-nine week period ended September 27, 2014 are as follows:

|  | Information<br>Technology | Engineering | Specialty<br>Health<br>Care | Total    |
|--|---------------------------|-------------|-----------------------------|----------|
| Balance as of December 28,<br>2013                       | \$5,516                   | \$2,326     | \$1,703                     | \$9,545  |
| Contingent consideration<br>recorded,<br>PCI acquisition | -                         | 678         | -                           | 678      |
| Balance as of September 27,<br>2014                      | \$5,516                   | \$3,004     | \$1,703                     | \$10,223 |

8. Intangible Assets

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

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

|                                    | Engineering | Information<br>Technology | Total |
|------------------------------------|-------------|---------------------------|-------|
| Balance as of December 28,<br>2013 | \$179       | \$37                      | \$216 |

|  |       |      |       |
|--|-------|------|-------|
| Amortization of intangibles during the thirty-nine week period ended |       |      |       |
| September 27, 2014   | 41    | 24   | 65    |
| Intangibles acquired, PCI acquisition                                | 68    | -    | 68    |
| Balance as of September 27, 2014                                     | \$206 | \$13 | \$219 |

The Company periodically writes off fully amortized intangible assets. The Company did not write off any fully amortized intangibles for the thirty-nine week periods ended September 27, 2014 and September 28, 2013.

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9. Line of Credit

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

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as restrictions on the Company's ability to borrow to pay dividends. As of September 27, 2014, the Company was in compliance with all covenants contained in its Revolving Credit Facility.

There were no borrowings during the thirty-nine week periods ended September 27, 2014 and September 28, 2013. At both September 27, 2014 and December 28, 2013, there were letters of credit outstanding for \$0.8 million. At September 27, 2014, the Company had availability for additional borrowings under the Revolving Credit Facility of \$14.2 million.

10. Per Share Data

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

The number of shares of common stock used to calculate basic and diluted earnings per share for the thirty-nine week periods ended September 27, 2014 and September 28, 2013 was determined as follows:

|  | Thirteen Week Periods Ended |                          | Thirty-Nine Week Periods Ended |                          |
|--|-----------------------------|--------------------------|--------------------------------|--------------------------|
|  | September<br>27,<br>2014    | September<br>28,<br>2013 | September<br>27,<br>2014       | September<br>28,<br>2013 |
| Basic weighted average shares outstanding    | 12,540,955                  | 12,364,018               | 12,494,793                     | 12,333,318               |
| Dilutive effect of outstanding stock options | 217,850                     | 123,400                  | 198,036                        | 98,143                   |
| Weighted average dilutive shares outstanding | 12,758,805                  | 12,487,418               | 12,692,829                     | 12,431,461               |

There were 45,000 and 97,500 absolute anti-dilutive shares not included in the calculation of common stock equivalents for the thirty-nine week periods ended September 27, 2014 and September 28, 2013, respectively. These

were determined to be anti-dilutive because the exercise prices of these shares for the period were higher than the average market price of the Company's common stock for the same period.

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10. Per Share Data (Continued)

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

|  | September<br>27,<br>2014 | December<br>28,<br>2013 |
|--|--------------------------|-------------------------|
| Exercise of options outstanding                  | 222,900                  | 276,900                 |
| Restricted stock awards outstanding              | 300,000                  | 300,000                 |
| Future grants of options or shares               | 19,100                   | 34,100                  |
| Shares reserved for employee stock purchase plan | 122,484                  | 189,576                 |
| <b>Total</b>                                     | <b>664,484</b>           | <b>800,576</b>          |

11. Share-Based Compensation

At September 27, 2014, the Company had three share-based employee compensation plans. The Company measures the fair value of share-based awards, if and when granted, based on the Black-Scholes method and using the closing market price of the Company's common stock on the date of grant. Awards vest over periods ranging from one to three years and expire within 10 years of issuance. Share-based compensation expense related to awards is amortized in accordance with applicable vesting periods using the straight-line method. Share-based compensation expense of \$551 and \$515 was recognized for the thirty-nine week periods ended September 27, 2014 and September 28, 2013, respectively.

As of September 27, 2014, the Company had approximately \$741 of total unrecognized compensation cost related to all non-vested share-based awards granted under the Company's various share-based plans, which the Company expects to recognize over approximately a three-year period. These amounts do not include the cost of any additional share-based awards that may be granted in future periods or reflect any potential changes in the Company's forfeiture rate.

**Incentive Share-Based Plans**

**1996 Executive Stock Option Plan (the 1996 Plan)**

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provided for the issuance of up to 1,250,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006, at which time the 1996 Plan expired. Options were generally granted at fair market value at the date of grant. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of September 27, 2014, options to purchase 76,000 shares of common stock granted under the 1996 Plan were outstanding.

**2000 Employee Stock Incentive Plan (the 2000 Plan)**



The 2000 Plan, approved by the Company's stockholders in April 2001, provided for the issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors may award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determines the vesting period at the time of grant. As of September 27, 2014, options to purchase 57,500 shares of common stock granted under the 2000 Plan were outstanding.

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11. Share-Based Compensation (Continued)

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

2007 Omnibus Equity Compensation Plan (the 2007 Plan)

The 2007 Plan, approved by the Company's stockholders in June 2007, provides for the issuance of up to 700,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. No more than 350,000 shares of common stock in the aggregate may be issued pursuant to grants of stock awards, stock units, performance shares and other stock-based awards. No more than 300,000 shares of common stock with respect to awards may be granted to any individual during any fiscal year. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of September 27, 2014, under the 2007 Plan, 19,100 shares of common stock were available for future grants and options to purchase 89,400 shares of common stock, as well as 300,000 restricted stock units, were outstanding.

Stock Options

There were 15,000 options granted during the thirty-nine week period ended September 27, 2014 and 5,000 options granted during the thirty-nine week period ended September 28, 2013. Activity regarding outstanding options for the thirty-nine week period ended September 27, 2014 is as follows:

|   | All Stock Options Outstanding | Weighted       |
|---|-------------------------------|----------------|
|   | Shares                        | Average        |
|   |                               | Exercise Price |
| Options outstanding as of December 28, 2013   | 276,900                       | \$5.47         |
| Options granted   | 15,000                        | \$6.10         |
| Options exercised   | (58,000)                      | \$4.59         |
| Options forfeited/cancelled   | (11,000)                      | \$8.81         |
| Options outstanding as of September 27, 2014  | 222,900                       | \$5.57         |
| Options outstanding price range at September 27, 2014   | \$4.16 -<br>\$9.81            |                |
| Options exercisable as of September 27, 2014  | 152,900                       | \$5.53         |
| Intrinsic value of outstanding stock options as of September 27, 2014                               | \$476                         |                |
| Intrinsic value of stock options exercised for the thirty-nine week period ended September 27, 2014 | \$112                         |                |

As of September 27, 2014, the Company had approximately \$69 of total unrecognized compensation cost related to non-vested stock option awards granted under the Company's various share-based plans, which the Company expects to recognize over approximately a three-year period. These amounts do not include the cost of any additional options that may be granted in future periods or reflect any potential changes in the Company's forfeiture rate.

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11. Share-Based Compensation (Continued)

Restricted Stock Units

From time-to-time the Company issues restricted stock units. These restricted stock units typically include dividend accrual equivalents, which means that any dividends paid by the Company during the three year vesting period become due and payable after the three year vesting period assuming the grantee's restricted stock unit fully vests. Dividends for these grants are accrued on the dividend payment dates and included in accounts payable and accrued expenses on the accompanying consolidated balance sheet. Dividends for restricted stock units that ultimately do not vest are forfeited.

To date, the Company has only issued restricted stock units under the 2007 Plan. The following summarizes the restricted stock units activity under the 2007 Plan during 2014:

|   | Number of<br>Restricted<br>Stock Units<br>(in<br>thousands) | Weighted<br>Average<br>Grant Date<br>Fair<br>Value per<br>Share |
|---|---|---|
| Outstanding non-vested at December 28,<br>2013  | 300   | \$5.72  |
| Granted   | -   | -   |
| Vested  | -   | -   |
| Forfeited or expired                            | -   | -   |
| Outstanding non-vested at September 27,<br>2014 | 300   | \$5.72  |

Based on the closing price of the Company's common stock of \$7.44 per share on September 26, 2014, the intrinsic value of the non-vested restricted stock units at September 27, 2014 was approximately \$2.2 million. As of September 27, 2014, there was approximately \$672 million of total unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted-average period of approximately 13.5 months.

Employee Stock Purchase Plan

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

offering period payroll deductions. The number of shares issued at the beginning of the current period (as of June 29, 2014) was 33,230. As of September 27, 2014, there were 122,484 shares available for issuance under the Purchase Plan.

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12. Treasury Stock Transactions

Our Board of Directors instituted a share repurchase program in February 2010, which authorized the repurchase of up to \$7.5 million of the Company's outstanding shares of 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 fiscal year ended December 28, 2013, the Company repurchased 15,450 shares for an average price of \$5.35 per share. Over the life of this share repurchase program, the Company purchased 1,473,306 shares at a total cost of approximately \$7.5 million, or an average price of \$5.09.

On October 28, 2013, the Board of Directors authorized an additional repurchase program to purchase up to \$5.0 million of outstanding shares of common stock at the prevailing market prices, from time to time over the subsequent 12-month period. As of September 27, 2014, the Company had not purchased any shares under this additional repurchase program.

On September 30, 2014, the Board extended this repurchase program through October 31, 2015.

13. New Accounting Standards

In July 2013, the FASB issued ASU 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" (ASU 2013-11), which amends ASC 740 "Income Taxes." This update provides guidance on the financial statement presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses or tax credit carryforwards exist. We adopted the provisions of ASU 2013-11 in 2014. This update did not have a material effect on our consolidated financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange for those goods or services. The standard will be effective for the Company beginning in the first quarter of 2017 and early adoption is not permitted. The new standard permits the use of either the retrospective or cumulative effect transition method on adoption. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures, including which transition method it will adopt.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern, which states management should evaluate whether there are conditions or events, considered in the aggregate, that raise a substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Management's evaluation should be based on relevant conditions and events that are known and likely to occur at the date that the financial statements are issued. The standard update will be effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter, however, early application is permitted. The Company is evaluating the effect that ASU 2014-15 will have on its consolidated financial statements and related disclosures.

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14. Segment Information

The Company follows “Disclosures about Segments of an Enterprise and Related Information,” which establishes standards for companies to report information about operating segments, geographic areas and major customers. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies (see Note 1 to the Company’s Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 28, 2013).

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

| Thirteen Week Period Ended<br>September 27, 2014 | Engineering | Information<br>Technology | Specialty<br>Health<br>Care | Corporate | Total    |
|--|-------------|---------------------------|-----------------------------|-----------|----------|
| Revenue  | \$24,835    | \$14,405                  | \$7,142                     | \$ -      | \$46,382 |
| Cost of services                                 | 18,239      | 9,941                     | 5,041                       | -         | 33,221   |
| Selling, general and<br>administrative           | 4,096       | 3,560                     | 2,335                       | -         | 9,991    |
| Depreciation and<br>amortization                 | 248         | 61                        | 28                          | -         | 337      |
| Operating income (loss)                          | \$2,252     | \$843                     | (\$262)                     | \$ -      | \$2,833  |
| Total assets                                     | \$49,169    | \$15,253                  | \$16,529                    | \$13,389  | \$94,340 |
| Capital expenditures                             | \$587       | \$ -                      | \$9                         | \$7       | \$603    |

  

| Thirteen Week Period Ended<br>September 28, 2013(1) | Engineering | Information<br>Technology | Specialty<br>Health Care | Corporate | Total    |
|---|-------------|---------------------------|--------------------------|-----------|----------|
| Revenue   | \$22,000    | \$13,156                  | \$6,164                  | \$ -      | \$41,320 |
| Cost of services                                    | 16,660      | 9,649                     | 4,327                    | -         | 30,636   |
| Selling, general and<br>administrative              | 3,401       | 3,288                     | 1,895                    | -         | 8,584    |
| Severance and other charges                         | -           | -                         | -                        | 15        | 15       |
|   | 187         | 66                        | 26                       | -         | 279      |

Depreciation and  
amortization

|                         |          |          |          |          |          |
|-------------------------|----------|----------|----------|----------|----------|
| Operating income (loss) | \$1,752  | \$153    | (\$84)   | (\$15)   | \$1,806  |
| Total assets            | \$45,525 | \$14,106 | \$12,507 | \$17,818 | \$89,956 |
| Capital expenditures    | \$226    | -        | -        | -        | \$226    |

(1) Certain prior year amounts have been reclassified to conform to fiscal 2014 presentation. These changes had no impact on previously reported results of operations or shareholder's equity.



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14. Segment Information (Continued)

| Thirty-Nine Week Period<br>Ended<br>September 27, 2014    | Engineering | Information<br>Technology | Specialty<br>Health<br>Care | Corporate | Total     |
|---|-------------|---------------------------|-----------------------------|-----------|-----------|
| Revenue   | \$75,615    | \$44,076                  | \$24,769                    | \$ -      | \$144,460 |
| Cost of services  | 57,695      | 30,734                    | 17,658                      | -         | 106,087   |
| Selling, general and<br>administrative                    | 11,881      | 10,735                    | 6,872                       | -         | 29,488    |
| Severance and other charges                               | -           | -                         | -                           | 104       | 104       |
| Depreciation and<br>amortization                          | 643         | 165                       | 77                          | -         | 885       |
| Operating income (loss)                                   | \$5,396     | \$2,442                   | \$162                       | (\$104)   | \$7,896   |
| Total assets  | \$49,169    | \$15,253                  | \$16,529                    | \$13,389  | \$94,340  |
| Capital expenditures                                      | \$1,120     | \$ -                      | \$92                        | \$740     | \$1,952   |
|   |             |                           |                             |           |           |
| Thirty-Nine Week Period<br>Ended<br>September 28, 2013(1) | Engineering | Information<br>Technology | Specialty<br>Health Care    | Corporate | Total     |
| Revenue   | \$63,263    | \$41,378                  | \$20,288                    | \$ -      | \$124,929 |
| Cost of services  | 48,562      | 29,706                    | 14,094                      | -         | 92,362    |
| Selling, general and<br>administrative                    | 10,608      | 10,256                    | 5,387                       | -         | 26,251    |
| Severance and other charges                               | 342         | -                         | -                           | 111       | 453       |
| Depreciation and<br>amortization                          | 509         | 236                       | 84                          | -         | 829       |
| Operating income (loss)                                   | \$3,237     | \$1,183                   | \$725                       | (\$111)   | \$5,034   |
| Total assets  | \$45,525    | \$14,106                  | \$12,507                    | \$17,818  | \$89,956  |
| Capital expenditures                                      | \$859       | \$57                      | \$4                         | \$151     | \$1,071   |

(1) Certain prior year amounts have been reclassified to conform to fiscal 2014 presentation. These changes had no impact on previously reported results of operations or shareholder's equity.

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14. Segment Information (Continued)

The Company derives a majority of its revenue from offices in the United States. Revenues reported for each operating segment are all from external customers. The Company is domiciled in the United States and its segments operate in the United States, Canada and Puerto Rico. Revenues by geographic area for the thirty-nine week periods ended September 27, 2014 and September 28, 2013 are as follows:

|                | Thirteen Week Periods Ended |                          | Thirty-Nine Week Periods<br>Ended |                          |
|----------------|-----------------------------|--------------------------|-----------------------------------|--------------------------|
|                | September<br>27,<br>2014    | September<br>28,<br>2013 | September<br>27,<br>2014          | September<br>28,<br>2013 |
| Revenues       |                             |                          |                                   |                          |
| U. S.          | \$32,651                    | \$30,991                 | \$103,403                         | \$96,558                 |
| Canada         | 12,087                      | 8,980                    | 36,669                            | 24,429                   |
| Puerto<br>Rico | 1,644                       | 1,349                    | 4,388                             | 3,942                    |
|                | \$46,382                    | \$41,320                 | \$144,460                         | \$124,929                |

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

|                     | September<br>27,<br>2014 | December<br>28,<br>2013 |
|---------------------|--------------------------|-------------------------|
| Total assets        |                          |                         |
| U. S.               | \$63,225                 | \$62,198                |
| Canada              | 29,502                   | 22,993                  |
| P u e r t o<br>Rico | 1,613                    | 1,333                   |
|                     | \$94,340                 | \$86,524                |

15. Income Taxes

The projected fiscal 2014 effective income tax rate as of September 27, 2014 is approximately 41.7% and 27.7% in the United States and Canada, respectively, and has yielded a consolidated effective income tax rate of approximately 35.3% for the thirty-nine week period ended September 27, 2014. The Company reduced an unrecognized tax benefit of \$0.5 million during the thirty-nine weeks ended September 28, 2013. Before considering this discreet adjustment, the projected fiscal 2013 effective income tax rate as of September 28, 2013 was approximately 41.3% and 28.2% in the United States and Canada, respectively, and yielded a consolidated effective income tax rate of approximately 39.3% for the thirty-nine week period ended September 28, 2013. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company.



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16. Contingencies

From time to time, the Company is a defendant or plaintiff in various legal actions that arise in the normal course of business. As such, the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of losses and possible recoveries. The Company may not be covered by insurance as it pertains to some or all of these matters. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. Once established, a provision may change in the future due to new developments or changes in circumstances, and could increase or decrease the Company's earnings in the period that the changes are made. Included in the Company's accounts payable and accrued expenses is a provision for losses from legal matters aggregating \$0.1 million as of both September 27, 2014 and December 28, 2013. Asserted claims in these matters seek approximately \$8.4 million and \$10.7 million in damages as of September 27, 2014 and December 28, 2013, respectively.

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

17. Severance and Other Charges

During the year ended December 28, 2013, the Company incurred one-time charges related to three endeavors: 1) facilities consolidation charges - the Company elected to consolidate its Canadian operations by consolidating its Mississauga location into its expanded Pickering location, and the Company closed its Mason, Ohio office. The costs associated with the consolidation of offices in Canada primarily related to statutory severance requirements resulting from labor laws in Canada. The charges associated with the Company's closed Mason, Ohio office represent future rent payments whereby the Company will not utilize the premises; 2) the Company engaged in a contested proxy solicitation which culminated in a group of stockholders winning two seats on the Company's board of directors and the subsequent retirement of its former President and Chief Executive Officer, Leon Kopyt; and 3) the Company incurred professional fees connected with a research and development tax credit study related to prior tax years.

The Company incurred \$0.1 million in severance and other charges for the thirty-nine week period ended September 27, 2014 and \$0.5 million for the comparable prior year period. The costs in the current period primarily related to professional fees associated with the settlement agreements entered into following the Company's fiscal 2013 proxy contest. The costs in the comparable prior year period primarily related to facilities consolidation charges and the professional fees associated with the 2013 proxy contest.

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18. Subsequent Events

The Company has a subcontract agreement with Black & McDonald Limited (“B&M”) to provide engineering and procurement services under B&M’s master services agreement with Ontario Power Generation (“OPG”). The Company understands that in October 2014, OPG provided to B&M notice of default and termination of a large purchase order from OPG to B&M with respect to which B&M had engaged several subcontractors, including the Company. B&M notified the Company that it is disputing OPG’s default claim on this purchase order. As of September 27, 2014 the Company had outstanding accounts receivable to B&M of \$5.6 million under the disputed purchase order and, including such amount, a total of \$15.8 million of outstanding accounts receivable to B&M. OPG has indicated to the Company that it will not make any further payments to B&M on the project in dispute. The Company has received notice from B&M that while B&M disputes OPG’s assertion it is in default, B&M believes that in the event that it is in default under its agreement with OPG, then the Company may also be in default under its agreement with B&M. The Company does not agree with this assertion. The Company does not believe that any of its account receivables with B&M have been materially impaired and believes that its accounts receivable with B&M remain collectible, subject to existing reserves. However, it is possible that a protracted dispute between OPG and B&M may impact the Company’s ability to collect its outstanding accounts receivable in a timely manner.

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

Private Securities Litigation Reform Act Safe Harbor Statement

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

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

Overview

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

The Company experienced an increase in revenues of 15.6% during the thirty-nine week period ended September 27, 2014 as compared to the comparable prior year period. The Engineering, Information Technology and Specialty Healthcare segments experienced growth of 21.1%, 6.5% and 22.1%, respectively. The Company is optimistic that overall results for the remaining quarter of fiscal 2014 should remain favorable as compared to the comparable prior year period.

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

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

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

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

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



revenue on these deliverables at the time the client accepts and approves the deliverables.

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

### Overview (Continued)

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

### Critical Accounting Policies

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

### Revenue Recognition

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

### Project Services

The Company recognizes revenues in accordance with "Revenue Recognition" which clarifies application of U.S. generally accepted accounting principles to revenue transactions. Project services are generally provided on a cost-plus, fixed-fee or time-and-material basis. Typically, a customer will outsource a discrete project or activity and the Company assumes responsibility for the performance of such project or activity. The Company recognizes revenues and associated costs on a gross basis as services are provided to the customer and costs are incurred using its employees. The Company, from time to time, enters into contracts requiring the completion of specific deliverables. The Company may recognize revenues on these deliverables at the time the client accepts and approves the deliverables. In instances where project services are provided on a fixed-price basis and the contract will extend beyond a 12-month period, revenue is recorded in accordance with the terms of each contract. In some instances, revenue is billed at the time certain milestones are reached, as defined in the contract. Revenues under these arrangements are recognized as the costs on these contracts are incurred. Amounts invoiced in excess of revenues recognized are recorded as deferred revenue, included in accounts payable and accrued expenses on the accompanying balance sheets. In other instances, revenue is billed and recorded based upon contractual rates per hour (i.e., percentage of completion). In addition, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when earned. Some contracts also limit revenues and billings to specified maximum amounts. Provision for contract losses, if any, are made in the period such losses are determined.



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

Revenue Recognition (Continued)

Consulting and Staffing Services

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

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

Transit Accounts Receivable and Transit Accounts Payable

From time to time, the Company's Engineering segment enters into agreements to provide, among other things, construction management and engineering services. In certain circumstances, the Company may acquire equipment as a purchasing agent for the client for a fee. Pursuant to these agreements, the Company: a) may engage subcontractors to provide construction or other services or contracts with manufacturers on behalf of the Company's clients to procure equipment or fixtures; b) typically earns a fixed percentage of the total project value or a negotiated mark-up on subcontractor or procurement charges as a fee; and c) assumes no ownership or risks of inventory. In such situations, the Company acts as an agent under the provisions of "Overall Considerations of Reporting Revenue Gross as a Principal versus Net as an Agent" and therefore recognizing revenue on a "net-basis." The Company records revenue on a "net" basis on relevant engineering and construction management projects, which require subcontractor/procurement costs or transit costs. In those situations, the Company charges the client a negotiated fee, which is reported as net revenue when earned. During the thirty-nine week period ended September 27, 2014, total gross billings, including both transit cost billings and the Company's earned fees, was \$55.2 million, for which the Company recognized \$32.3 million of its net fee as revenue. During the thirty-nine week period ended September 28, 2013, total gross billings, including both transit cost billings and the Company's earned fees, was \$57.7 million, for which the Company recognized \$20.4 million of its net fee as revenue.

Under the terms of the agreements, the Company is typically not required to pay the subcontractor until after the corresponding payment from the Company's end-client is received. Upon invoicing the end-client on behalf of the subcontractor or staffing agency the Company records this amount simultaneously as both a "transit account receivable" and "transit account payable" as the amount when paid to the Company is due to and generally paid to the subcontractor within a few days. The Company typically does not pay a given transit account payable until the related transit account receivable is collected. The Company's transit accounts payable generally exceeds the Company's transit accounts receivable but absolute amounts and spreads fluctuate significantly from quarter to quarter in the normal course of business. The transit accounts receivable was \$6.9 million and related transit accounts payable was \$7.0 million, for a net liability of \$0.1 million, as of September 27, 2014.

Permanent Placement Services

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

recorded in the financial statements. Revenues are recorded on a gross basis.

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

Accounts Receivable

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

Goodwill

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

Long-Lived and Intangible Assets

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



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

### Accounting for Stock Options and Restricted Stock Units

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

### Insurance Liabilities

The Company has risk participation arrangements with respect to workers compensation and health care insurance. The Company establishes loss provisions based on historical experience and in the case of expected losses from workers compensation, considers input from third parties. The amounts included in the Company's costs related to this risk participation are estimated and can vary based on changes in assumptions, the Company's claims experience or the providers included in the associated insurance programs.

### Accounting for Income Taxes

In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance and estimates of future earnings. As of September 27, 2014, the Company had domestic short-term deferred tax assets of \$1.0 million, total domestic long-term net deferred income tax assets of \$1.2 million and foreign short-term deferred tax liability of \$0.1 million. The domestic short-term deferred tax assets primarily represent the tax effect of accrued expenses which will be deductible for tax purposes within a twelve month period. The domestic long term deferred tax assets represent the tax effect of temporary differences for the GAAP versus tax amortization of intangibles arising from acquisitions made in prior periods. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

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

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

The Company had an unrecognized tax benefit of \$0.6 million as of September 27, 2014 and December 28, 2013. There were no changes to unrecognized tax benefits during the comparable prior year period.

### Accrued Bonuses



The Company pays bonuses to certain executive management, field management and corporate employees based on, or after giving consideration to, a variety of financial performance and qualitative 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.

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

Forward-looking Information

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

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

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

Thirteen Week Period Ended September 27, 2014 Compared to Thirteen Week Period Ended September 28, 2013

A summary of operating results for the thirteen week periods ended September 27, 2014 and September 28, 2013 is as follows (in thousands):

|                                     | September 27, 2014 |              | September 28, 2013 |              |
|-------------------------------------|--------------------|--------------|--------------------|--------------|
|                                     | Amount             | % of Revenue | Amount             | % of Revenue |
| Revenues                            | \$46,382           | 100.0        | \$41,320           | 100.0        |
| Cost of services                    | 33,221             | 71.6         | 30,636             | 74.1         |
| Gross profit                        | 13,161             | 28.4         | 10,684             | 25.9         |
| Selling, general and administrative | 9,991              | 21.6         | 8,584              | 20.8         |
| Severance and other charges         | -                  | -            | 15                 | -            |
| Depreciation and amortization       | 337                | 0.7          | 279                | 0.7          |
|                                     | 10,328             | 22.3         | 8,878              | 21.5         |
| Operating income                    | 2,833              | 6.1          | 1,806              | 4.4          |
| Other (expense) income, net         | 6                  | -            | (4)                | -            |
| Income before income taxes          | 2,839              | 6.1          | 1,802              | 4.4          |
| Income tax expense                  | 962                | 2.1          | 660                | 1.6          |
| Net income                          | \$1,877            | 4.0          | \$1,142            | 2.8          |

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarters ended September 27, 2014 and September 28, 2013 consisted of thirteen weeks each.

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

Thirteen Week Period Ended September 27, 2014 Compared to Thirteen Week Period Ended September 28, 2013  
(Continued)

**Revenues.** Revenues increased 12.3%, or \$5.1 million, for the thirteen week period ended September 27, 2014 as compared to the thirteen week period ended September 28, 2013 (the "comparable prior year period"). Revenues increased \$2.8 million in the Engineering segment, \$1.2 million in the Information Technology segment and \$1.0 million in the Specialty Health Care segment. See Segment Discussion for further information on revenue changes.

**Cost of Services.** Cost of services increased 8.4%, or \$2.6 million, for the thirteen week period ended September 27, 2014 as compared to the comparable prior year period. The increase in cost of services was primarily due to the increase in revenues. Cost of services as a percentage of revenues decreased to 71.6% for the thirteen week period ended September 27, 2014 from 74.1% for the comparable prior year period. The decrease in cost of services as a percentage of revenues was primarily due to higher gross margins in the Company's Information Technology and Engineering segments. See Segment Discussion for further information regarding changes in cost of services as a percentage of revenues.

**Selling, General and Administrative.** Selling, general and administrative ("SGA") expenses increased 16.4%, or \$1.4 million, for the thirteen week period ended September 27, 2014 as compared to the comparable prior year period. The increase in SGA expense was primarily due to investment in personnel and infrastructure necessary to support higher revenues. As a percentage of revenues, SGA expenses were 21.6% for the thirteen week period ended September 27, 2014 as compared to 20.8% for the comparable prior year period. SGA expense as a percentage of revenues increased due to the Company's continued investment in infrastructure designed to deliver revenue growth and increased incentive compensation associated with increased gross profit and operating income.

**Severance and Other Charges.** The Company did not incur any severance and other charges during the thirteen week period ended September 27, 2014. The Company incurred negligible severance and other charges during the thirteen week period ended September 28, 2013 which related to professional fees associated with the Company's fiscal 2013 proxy contest. The Company does not anticipate it will incur any more charges related to facilities consolidation or the proxy contest. The Company may incur significant additional charges in fiscal 2014 related to continuing its research and development tax credit study started in fiscal 2013.

**Other (Expense) Income, Net.** Other income, net consists of interest expense, unused line fees and amortized loan costs on the Company's loan agreement, net of interest income, gains and losses on foreign currency transactions and any other non-operating items incurred from time to time.

**Income Tax Expense.** The Company recognized \$1.0 million of income tax expense for the thirteen week period ended September 27, 2014 as compared to \$0.7 million for the comparable prior year period. The consolidated effective income tax rate for the current period was 33.9% as compared to 36.6% for the comparable prior year period (before the discrete adjustment). The projected fiscal 2014 effective income tax rate as of September 27, 2014 was approximately 41.7% and 27.7% in the United States and Canada, respectively. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company. The consolidated effective income tax rate decreased for the thirteen week period ended September 27, 2014 as compared to the comparable prior year period because the Company's Canadian income before taxes increased as a percentage of total income before taxes.



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

Thirteen Week Period Ended September 27, 2014 Compared to Thirteen Week Period Ended September 28, 2013  
(Continued)

Segment Discussion

Engineering

Engineering revenues of \$24.8 million in the thirteen week period ended September 27, 2014 increased \$2.8 million, or 12.9%, as compared to the comparable prior year period. The increase was primarily due to an increase in revenues of \$2.8 million in the Company's Canadian Engineering group. The Engineering segment operating income was \$2.3 million for the thirteen week period ended September 27, 2014 as compared to \$1.8 million for the comparable prior year period. Operating income increased primarily due to the increase in revenues and a decrease in cost of services as a percentage of revenues, offset by an increase in SGA expenses. Cost of services as a percentage of revenue decreased to 73.4% for the thirteen week period ended September 27, 2014 as compared to 75.7% for the comparable prior year period. The decrease in cost of services as a percentage of revenues was primarily due to the completion of a large fixed price contract in Canada at the end of the Company's second fiscal quarter of 2014 that was experiencing significantly higher costs than were estimated when the project started. SGA expenses increased by \$0.7 million primarily due to increased investment in the Company's Canadian Engineering division and the Technical Publications group as both have experienced increased demand for their services.

Information Technology

Information Technology revenues of \$14.4 million in the thirteen week period ended September 27, 2014 increased \$1.2 million, or 9.5%, as compared to the comparable prior year period. The Information Technology segment operating income was \$0.8 million for the thirteen week period ended September 27, 2014 as compared to \$0.2 million in the comparable prior year period. The increase in operating income was primarily due to an increase in revenues and a decrease in cost of services as a percentage of revenues. Cost of services as a percentage of revenues decreased to 69.0% from 73.3% for the comparable prior year period primarily due to a continued effort by the Company to focus on higher margin services.

Specialty Health Care

Specialty Health Care revenues of \$7.1 million in the thirteen week period ended September 27, 2014 increased \$1.0 million, or 15.9%, as compared to the comparable prior year period. The primary reason for the increase in the revenues for the Specialty Health Care segment related to an increase of \$0.7 million in revenues from the segment's Honolulu office. Specialty Health Care experienced an operating loss of \$0.3 million for the thirteen week period ended September 27, 2014 as compared to an operating loss of \$0.1 million for the comparable prior year period. The increase in operating loss was primarily due to an increase in cost of services as a percentage of revenues and an increase in SGA expense. Cost of services as a percentage of revenues increased to 70.6% from 70.2% for the comparable prior year period. The increase was primarily due to the segment's geographic expansion efforts, which have thus far garnered lower gross profit margins than the segment has typically achieved in its primary geographic region. The increase in SGA expenses of \$0.4 million was primarily due to increased investments in expanding Specialty Health Care's geographic footprint and several new service lines as well as an increased allocation of the Company's corporate SGA expense.



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

Thirty-Nine Week Period Ended September 27, 2014 Compared to Thirty-Nine Week Period Ended September 28, 2013

A summary of operating results for the thirty-nine week periods ended September 27, 2014 and September 28, 2013 is as follows (in thousands):

|                                     | September 27, 2014 |              | September 28, 2013 |              |
|-------------------------------------|--------------------|--------------|--------------------|--------------|
|                                     | Amount             | % of Revenue | Amount             | % of Revenue |
| Revenues                            | \$144,460          | 100.0        | \$124,929          | 100.0        |
| Cost of services                    | 106,087            | 73.4         | 92,362             | 73.9         |
| Gross profit                        | 38,373             | 26.6         | 32,567             | 26.1         |
| Selling, general and administrative | 29,488             | 20.4         | 26,251             | 21.0         |
| Severance and other charges         | 104                | 0.1          | 453                | 0.4          |
| Depreciation and amortization       | 885                | 0.6          | 829                | 0.7          |
|                                     | 30,477             | 21.1         | 27,533             | 22.1         |
| Operating income                    | 7,896              | 5.5          | 5,034              | 4.0          |
| Other (expense) income, net         | (19)               | -            | 74                 | 0.1          |
| Income before income taxes          | 7,877              | 5.5          | 5,108              | 4.1          |
| Income tax expense                  | 2,780              | 1.9          | 1,536              | 1.2          |
| Net income                          | \$5,097            | 3.6          | \$3,572            | 2.9          |

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The reporting periods ended September 27, 2014 and September 28, 2013 consisted of thirty-nine weeks each.

**Revenues.** Revenues increased 15.6%, or \$19.5 million, for the thirty-nine week period ended September 27, 2014 as compared to the thirty-nine week period ended September 28, 2013 (the "comparable prior year period"). Revenues increased \$12.3 million in the Engineering segment, \$2.7 million in the Information Technology segment and \$4.5 million in the Specialty Health Care segment. See Segment Discussion for further information on revenue changes.

**Cost of Services.** Cost of services increased 14.9%, or \$13.7 million, for the thirty-nine week period ended September 27, 2014 as compared to the comparable prior year period. The increase in cost of services was primarily due to the increase in revenues. Cost of services as a percentage of revenues decreased to 73.4% for the thirty-nine week period ended September 27, 2014 from 73.9% for the comparable prior year period. The decrease in cost of services as a percentage of revenues was primarily due to improved performance in the Company's Engineering and Information Technology segments. See Segment Discussion for further information regarding changes in cost of services as a percentage of revenues.

**Selling, General and Administrative.** SGA expenses increased 12.3%, or \$3.2 million, for the thirty-nine week period ended September 27, 2014 as compared to the comparable prior year period. The increase in SGA expense was primarily due to investment in personnel and infrastructure necessary to support higher revenues. As a percentage of revenues, SGA expenses were 20.4% for the thirty-nine week period ended September 27, 2014 as compared to 21.0%



for the comparable prior year period. SGA expense as a percentage of revenues primarily decreased due to the increase in revenues.

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

Thirty-Nine Week Period Ended September 27, 2014 Compared to Thirty-Nine Week Period Ended September 28, 2013 (Continued)

**Severance and Other Charges.** The Company incurred \$0.1 million in severance and other charges in the thirty-nine week period ended September 27, 2014 as compared to \$0.5 million in the comparable prior year period. The costs in the current period primarily related to professional fees associated with the settlement agreements entered into following the Company's fiscal 2013 proxy contest. The costs in the comparable prior year period primarily related to facilities consolidation charges and professional fees associated with the Company's fiscal 2013 proxy contest. The Company does not anticipate it will incur any more charges related to facilities consolidation or the fiscal 2013 proxy contest. The Company may incur significant additional charges in fiscal 2014 related to continuing its research and development tax credit study started in fiscal 2013.

**Other (Expense) Income, Net.** Other income, net consists of interest expense, unused line fees and amortized loan costs on the Company's loan agreement, net of interest income, gains and losses on foreign currency transactions and any other non-operating items incurred from time to time.

**Income Tax Expense.** The Company recognized \$2.8 million of income tax expense for the thirty-nine week period ended September 27, 2014 as compared to \$1.5 million for the comparable prior year period. Income tax expense for the thirty-nine week period ended September 28, 2013 reflects a reduction by \$0.5 million resulting from a reduction in a previously unrecognized tax benefit ("discrete adjustment"). The consolidated effective income tax rate for the current period was 35.3% as compared to 39.3% for the comparable prior year period (before the discrete adjustment). The projected fiscal 2014 effective income tax rate as of September 27, 2014 was approximately 41.7% and 27.7% in the United States and Canada, respectively. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company. The consolidated effective income tax rate decreased for the thirty-nine week period ended September 27, 2014 as compared to the comparable prior year period because the Company's Canadian income before taxes increased as a percentage of total income before taxes.

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

Thirty-Nine Week Period Ended September 27, 2014 Compared to Thirty-Nine Week Period Ended September 28, 2013 (Continued)

Segment Discussion

Engineering

Engineering revenues of \$75.6 million in the thirty-nine week period ended September 27, 2014 increased \$12.3 million, or 19.5%, as compared to the comparable prior year period. The increase was primarily due to an increase in revenues of \$12.1 million in the Company's Canadian Engineering group. The Engineering segment operating income was \$5.4 million for the thirty-nine week period ended September 27, 2014 as compared to \$3.2 million for the comparable prior year period. Operating income increased primarily due to the substantial increase in revenues, a decrease in cost of services as a percentage of revenues and a decrease in severance and other charges of \$0.3 million, offset by an increase in SGA expenses. Cost of services as a percentage of revenues decreased to 76.3% for the current period from 76.8% for the comparable prior year period. The decrease was primarily due to the completion at the end of the Company's second fiscal quarter 2014 of a large fixed priced contract with costs that significantly exceeded estimates. SGA expenses increased by \$1.3 million due to increased investment in the Company's Canadian Engineering division and the Technical Publications group as both have experienced increased demand for their services.

Information Technology

Information Technology revenues of \$44.1 million in the thirty-nine week period ended September 27, 2014 increased \$2.7 million, or 6.5%, as compared to the comparable prior year period. The Information Technology segment operating income was \$2.4 million for the thirty-nine week period ended September 27, 2014 as compared to \$1.2 million in the comparable prior year period. The increase in operating income was primarily due to an increase in revenues and a decrease in cost of services as a percentage of revenues. Cost of services as a percentage of revenues decreased to 69.7% from 71.8% for the comparable prior year period primarily due to a continued effort by the Company to focus on higher margin services.

Specialty Health Care

Specialty Health Care revenues of \$24.8 million in the thirty-nine week period ended September 27, 2014 increased \$4.5 million, or 22.1%, as compared to the comparable prior year period. The primary reason for the increase in the revenues for the Specialty Health Care segment related to an increase of \$4.0 million in revenues from the segment's Honolulu office. Specialty Health Care's operating income for the thirty-nine week period ended September 27, 2014 was \$0.2 million as compared to \$0.7 million for the comparable prior year period. The decrease in operating income was due primarily to an increase in cost of services as a percentage of revenues and an increase in SGA expense. Cost of services as a percentage of revenues increased to 71.3% from 69.5% for the comparable prior year period. The increase was primarily due to a tightening of the labor supply in Specialty Health Care's core markets and the segment's geographic expansion efforts, which have thus far garnered lower gross profit margins than the segment has typically achieved in its primary geographic region. The increase in SGA expenses of \$1.5 million was primarily due to increased investments in expanding Specialty Health Care's geographic footprint and several new service lines as well as an increased allocation of the Company's corporate SGA expense.



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                    |                          |
|                                 | September<br>27,<br>2014 | September<br>28,<br>2013 |
| Cash provided by (used<br>in):  |                          |                          |
| O p e r a t i n g<br>activities | \$1,184                  | \$740                    |
| I n v e s t i n g<br>activities | (\$2,023)                | (\$1,030)                |
| F i n a n c i n g<br>activities | \$292                    | \$274                    |

Operating Activities

Operating activities provided \$1.2 million of cash for the thirty-nine week period ended September 27, 2014 as compared to \$0.7 million in the comparable prior year period. The major components of cash provided by or used in operating activities in the thirty-nine week period ended September 27, 2014 and the comparable prior year period are as follows: net income and changes in accounts receivable, the net of transit accounts payable and transit accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses and accrued payroll and related costs.

Net income for the thirty-nine week period ended September 27, 2014 was \$5.1 million as compared to \$3.6 million for the comparable prior year period. An increase in accounts receivables in the thirty-nine week period ended September 27, 2014 used \$5.6 million of cash as compared to \$11.1 million in the comparable prior year period. The Company primarily attributes the increase in accounts receivables for the thirty-nine week period ended September 27, 2014 to an increase in revenues as compared to levels in the second half of fiscal 2013 and increases in balances with two major customers that experienced procedural issues related to invoicing that caused a significant increase in those customers accounts receivable balances as of September 27, 2014. The Company anticipates that those balances will decrease from the September 27, 2014 balances during the Company's fourth quarter in fiscal 2014.

The Company's transit accounts payable generally exceeds the Company's transit accounts receivable, but absolute amounts and differences fluctuate significantly from quarter to quarter in the normal course of business. The net of transit accounts payable and transit accounts receivable was a net liability of \$0.1 million as of September 27, 2014 and was a negligible net asset as of December 28, 2013, so the cash impact during the thirty-nine week period ended September 27, 2014 provided \$0.1 million in cash. The net of transit accounts payable and transit accounts receivable was a net liability of \$1.5 million as of September 28, 2013 and was a net liability of \$1.9 million as of December 29, 2012, so the cash impact during the thirty-nine week period ended September 28, 2013 used \$0.4 million in cash.

Prepaid expenses and other current assets used \$0.4 million in cash for the thirty-nine week period ended September 27, 2014 as compared to providing \$0.7 million in the comparable prior year period. The increase to prepaid expenses

and other current assets during the current period primarily resulted from prepaid insurance premiums and income tax deposits.

A decrease in accounts payable and accrued expenses used \$1.0 million for the thirty-nine week period ended September 27, 2014 as compared to providing \$5.2 million for the comparable prior year period. The Company attributes these changes to general timing of payments to vendors in the normal course of business. An increase in accrued payroll and related costs for the thirty-nine week period ended September 27, 2014 used \$0.9 million in cash as compared to providing \$1.8 million for the comparable prior year period. The primary reason for the decrease in accrued payroll and related costs during the current period was from a \$2.7 million severance payment to the Company's former President and CEO that was accrued in fiscal 2013 and paid during the Company's fiscal third quarter 2014.

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 \$2.0 million for the thirty-nine week period ended September 27, 2014 as compared to using \$1.0 million in the comparable prior year period. The primary reason for the increase in cash used by investment activities was due to an increase of \$1.1 million in property and equipment acquired from investments in the Company's growing Engineering segment and \$0.7 million upgrades to the Company's internal information technology infrastructure. The Company has decided to purchase and implement a new project management software platform sometime in the fourth quarter of fiscal 2014. The implementation is anticipated to take at least six months and the total cost is expected to be as much as \$1.0 million. The Company also anticipates that it may significantly enhance its financial reporting and accounting system platform sometime in late 2015 and, as a result, it may see significant additional expenditures for property and equipment in fiscal 2015 and 2016.

Financing Activities

Financing activities provided \$0.3 million of cash for both the thirty-nine week periods ended September 27, 2014 and the comparable prior year period. The Company paid a contingent payment of \$0.3 million to the former principles of BGA during the thirty-nine week period ended September 27, 2014. The Company generated cash of \$0.6 million from the sale of stock through its stock option and employee stock purchase plans for the thirty-nine week period ended September 27, 2014 as compared to \$0.4 million for the comparable prior year period. The comparable prior year period cash provided by financing activities was offset by \$0.1 million in treasury stock purchases.

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

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

There were no borrowings during the thirty-nine week periods ended September 27, 2014 and September 28, 2013. At September 27, 2014 and December 28, 2013, there were letters of credit outstanding for \$0.8 million. At September 27, 2014, the Company had availability for additional borrowings under the Revolving Credit Facility of \$14.2 million.

As of September 27, 2014, \$2.6 million of the \$8.3 million (on the Consolidated Balance Sheet) of cash and cash equivalents was held by foreign subsidiaries, with a negligible amount of this portion held in U.S. dollars and the balance held in Canadian dollars.

Commitments

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



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

Liquidity and Capital Resources (Continued)

Commitments (Continued)

The Company has a subcontract agreement with Black & McDonald Limited ("B&M") to provide engineering and procurement services under B&M's master services agreement with Ontario Power Generation ("OPG"). The Company understands that in October 2014, OPG provided to B&M notice of default and termination of a large purchase order from OPG to B&M with respect to which B&M had engaged several subcontractors, including the Company. B&M notified the Company that it is disputing OPG's default claim on this purchase order. As of September 27, 2014 the Company had outstanding accounts receivable to B&M of \$5.6 million under the disputed purchase order and, including such amount, a total of \$15.8 million of outstanding accounts receivable to B&M. OPG has indicated to the Company that it will not make any further payments to B&M on the project in dispute. The Company has received notice from B&M that while B&M disputes OPG's assertion it is in default, B&M believes that in the event that it is in default under its agreement with OPG, then the Company may also be in default under its agreement with B&M. The Company does not agree with this assertion.

In addition, OPG has notified the Company that it intends to contract directly with the Company for the remaining engineering and procurement services work on this large project, and has instructed the Company to proceed with its current work while it prepares the necessary purchase orders to provide to the Company.

The Company has no knowledge of OPG providing B&M with notice of default on any other projects for which the Company is a subcontractor, and also believes that these projects will continue in the normal course. The Company does not believe that any of its account receivables with B&M have been materially impaired and believes that its accounts receivable with B&M remain collectible, subject to existing reserves. However, it is possible that a protracted dispute between OPG and B&M may impact the Company's ability to collect its outstanding accounts receivable in a timely manner.

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

The Company has decided to purchase and implement a new project management software platform sometime in the fourth quarter of fiscal 2014. The implementation is anticipated to take at least six months and the total cost is expected to be as much as \$1.0 million. The Company also anticipates that it may significantly enhance its financial reporting and accounting system platform sometime in late fiscal 2015 and, as a result, it may experience significant additional expenditures for property and equipment in fiscal 2015 and 2016. 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.



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

Liquidity and Capital Resources (Continued)

The Company leases office facilities and various equipment under non-cancelable leases expiring at various dates through June 2020. Certain leases are subject to escalation clauses based upon changes in various factors. The minimum future annual operating lease commitments for leases with non-cancelable terms, exclusive of unknown operating escalation charges, are as follows (in thousands):

| Fiscal Years                          | Amount   |
|---------------------------------------|----------|
| 2014 (After<br>September 27,<br>2014) | \$836    |
| 2015                                  | 3,180    |
| 2016                                  | 2,415    |
| 2017                                  | 1,974    |
| 2018                                  | 1,581    |
| Thereafter                            | 671      |
| Total                                 | \$10,657 |

Future Contingent Payments

As of September 27, 2014, the Company had two active acquisition agreements whereby additional contingent consideration may be earned: 1) effective July 1, 2012 the Company acquired certain assets of BGA, LLC ("BGA"); and 2) effective August 1, 2014 the Company acquired all of the stock of Point Comm, Inc. ("PCI"), an Ontario amalgamated corporation, as more fully described below. The Company cannot estimate future contingent payments with any certainty. However, the Company estimates future contingent payments at September 27, 2014 as follows:

| Period Ending   | BGA   | PCI   | Total   |
|---|-------|-------|---------|
| January 3, 2015                                       | \$88  | \$-   | \$88    |
| January 2, 2016                                       | 222   | 261   | 483     |
| December 31, 2016                                     | 307   | 197   | 504     |
| December 30, 2017                                     | -     | 307   | 307     |
| Estimated future contingent<br>consideration payments | \$617 | \$765 | \$1,382 |

Actual future contingent payments may materially differ from the estimates above. Future contingent payments to be made to BGA and PCI are capped at cumulative maximums of \$2.7 million and \$2.0 million, respectively. The Company estimates future contingent consideration in payments based on forecasted performance and recorded the net present value of those expected payments as of September 27, 2014.

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

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of its Revolving Credit Facility. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of September 27, 2014, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Presently the impact of a 10% (approximately 90 basis points) increase in interest rates on its variable debt (using an incremental borrowing rate) would have a relatively nominal impact on the Company's results of operations. The Company does not expect any material loss with respect to its investment portfolio.

### ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Events Affecting Significant Customers; Risks to Accounts Receivable

As disclosed in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 28, 2013, a substantial portion of our business comes from our largest customers. Specifically, during the fiscal year ended December 28, 2013, Ontario Power Group (“OPG”), which the Company primarily services as a subcontractor through Black and McDonald Limited (“B&M”), accounted for 18.6% of our revenues, and we have continued to do substantial business with OPG, through B&M, in the current fiscal year. As discussed in the section of this Quarterly Report on Form 10-Q entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” OPG and B&M are engaged in a dispute regarding a large purchase order from OPG to B&M with respect to which we have been engaged as a subcontractor to B&M. As of September 27, 2014 we had outstanding accounts receivable to B&M of \$5.6 million under the disputed purchase order and, including such amount, a total of \$15.8 million of outstanding accounts receivable to B&M. We believe that our accounts receivable with B&M remain collectible, subject to existing reserves, but if a protracted dispute between OPG and B&M were to occur, it could impact our ability to collect our outstanding accounts receivable in a timely manner.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.



ITEM 6. EXHIBITS

- 31.1 Certification of 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 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

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 6,  
2014

By: /s/ Rocco Campanelli

Rocco Campanelli  
President and Chief Executive Officer  
(Principal Executive Officer and  
Duly Authorized Officer of the Registrant)

Date: November 6,  
2014

By: /s/ Kevin D. Miller

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



Exhibit 31.1

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

CERTIFICATION

I, Rocco Campanelli, certify that:

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

report financial information; and

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

Date: November 6, 2014

/s/ Rocco Campanelli  
Rocco Campanelli  
President and Chief Executive Officer

Exhibit 31.2

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

CERTIFICATION

I, Kevin D. Miller, certify that:

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

report financial information; and

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

Date: November 6, 2014

/s/ Kevin D. Miller  
Kevin D. Miller  
Chief Financial Officer

Exhibit 32.1

RCM TECHNOLOGIES, INC.

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

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

- (1) The Company’s periodic report on Form 10-Q for the quarter ended September 27, 2014 (the “Form 10-Q”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

\* \* \*

/s/ Rocco Campanelli  
Rocco Campanelli  
President and Chief Executive Officer

Date: November 6, 2014

Exhibit 32.2

RCM TECHNOLOGIES, INC.

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

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

- (1) The Company’s periodic report on Form 10-Q for the quarter ended September 27, 2014 (the “Form 10-Q”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

\* \* \*

/s/ Kevin D. Miller  
Kevin D. Miller  
Chief Financial Officer

Date: November 6, 2014

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