RCM TECHNOLOGIES INC
Form 10-K
February 23, 2011

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 1, 2011
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from .... to ....

Commission file number 1-10245

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

Nevada (State or Other Jurisdiction of Incorporation or Organization)	95-–1480559 (I.R.S. Employer Identification No.)
2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey (Address of Principal Executive Offices)	08109-4613 (Zip Code)
Registrant's telephone number, including area code:	(856) 356-4500
Securities registered pursuant to Section 12(b) of the Act:	
Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.05 per share	The NASDAQ Stock Market LLC
Securities registered pursuant to Section 12(g) of the Act:	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [ ] NO [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES [ ] NO [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES [X] NO [ ]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act). (Check one):

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $41.1 million based upon the closing price of $4.46 per share of the registrant’s common stock on July 2, 2010 on The NASDAQ Global Market. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from the figure is an affiliate or that any person whose holdings are included is not an affiliate and any such admission is hereby disclaimed. The information provided is included solely for record keeping purposes of the Securities and Exchange Commission.

The number of shares of registrant's common stock (par value $0.05 per share) outstanding as of February 22, 2011: 13,029,314.

Documents Incorporated by Reference

Portions of the definitive proxy statement for the registrant's 2011 Annual Meeting of Stockholders (the “2011 Proxy Statement”) are incorporated by reference into Items 10, 11, 12, 13 and 14 in Part III of this Annual Report on Form 10-K. If the 2011 Proxy Statement is not filed by May 1, 2011, an amendment to this annual report on Form 10-K setting forth this information will be duly filed with the Securities and Exchange Commission.

RCM TECHNOLOGIES, INC.

FORM 10-K

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PART I

Private Securities Litigation Reform Act Safe Harbor Statement

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

ITEM 1. BUSINESS

General

RCM Technologies, Inc. is a premier provider of business and technology solutions designed to enhance and maximize the operational performance of its customers through the adaptation and deployment of advanced information technology and engineering services. RCM is also a provider of specialty healthcare services to major health care institutions and educational facilities. RCM has been an innovative leader in the design, development, and delivery of these services to commercial and government sectors for 40 years. Over the years, the Company has developed and assembled an attractive, diverse and extensive portfolio of capabilities, service offerings and delivery options, established a proven record of performance and credibility, and built an efficient pricing structure. This combination offers clients a compelling value proposition with the potential to substantially accelerate the successful attainment of their business objectives.

RCM consists of three operating segments: Information Technology, Engineering and Specialty Health Care Services. The Company's Information Technology, or IT, segment provides enterprise business solutions, application services, infrastructure solutions, competitive advantage & productivity solutions, life sciences solutions and other selected vertical market specific offerings. RCM's Engineering segment provides engineering and design, engineering analysis, technical writing and technical support services. The Company's Specialty Health Care Services segment provides health care professionals, primarily nurses and therapists.

The Company services some of the largest national and international companies in North America as well as a lengthy roster of Fortune 1000 and mid-sized businesses in such industries as Aerospace/Defense, Energy, Financial Services, Life Sciences, Manufacturing & Distribution, the Public Sector and Technology. RCM believes it offers a range of solutions that fosters long-term client relationships, affords cross-selling opportunities, and minimizes the Company's dependence on any single technology or industry sector. RCM sells and delivers its services through a network of 26 offices in selected regions throughout North America.

The Company is a Nevada corporation organized in 1971. The address of its principal executive office is 2500 McClellan Avenue, Suite 350, Pennsauken, NJ 08109-4613.

During the fiscal year ended January 1, 2011, approximately 44.2% of RCM's total revenues were derived from IT services, 39.8% from Engineering services, and the remaining 16.0% from Specialty Health Care services.

Demand for the Company's services can be significantly impacted by changes in the general level of economic activity and particularly technology spending. During periods of reduced economic activity, such as the environment in the United States and the world in general since approximately mid-2007 and continuing through fiscal 2010, the Company may also be subject to increased pricing pressure in its markets due to reduced spending by clients and potential clients of the Company. Extended periods of weakness in the economy can have a material adverse impact on the Company's business and results of operations. Accordingly, the Company's operations have been adversely impacted by the continuing economic downturn that began in the middle of 2007.

Industry Overview

Businesses today face intense competition, the challenge of constant technological change and the ongoing need for business process optimization. To address these issues and to compete more effectively, companies are continually evaluating the need for implementing innovative solutions to upgrade their systems, applications, and processes. As a result, the ability of an organization to integrate and align advanced technologies with new business objectives is critical.

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ITEM 1. BUSINESS (CONTINUED)

Industry Overview (Continued)

Although most companies recognize the importance of optimizing their systems, applications and processes to compete in today's challenging environment, the process of designing, developing and implementing business and technology solutions is becoming increasingly complex. The Company believes that many businesses are focused on return on investment analysis in prioritizing their initiatives. The Company believes that as a consequence, over the past few years, companies have elected to defer, redefine or cancel investments in new systems, software, and solutions and have focused on making extended and more effective use of previous technological investments.

On the other hand, the current economic environment challenges many companies to integrate and manage computing environments consisting of multiple computing platforms, operating systems, databases and networking protocols and off-the-shelf software applications to support business objectives. Companies also need to keep pace with new technology developments, which often rapidly render existing equipment and internal skills obsolete. At the same time, external economic factors have caused many organizations to focus on core competencies and trim workforces in the IT management area. Accordingly, these organizations often lack the quantity, quality and variety of IT skills necessary to design and support IT solutions. IT managers are charged with supporting increasingly complex systems and applications of significant strategic value, while working under budgetary, personnel and expertise constraints within their own organizations.

The Company believes its target market for IT services is among middle-market companies, which typically lack the time and technical resources to satisfy all of their IT needs internally. These companies commonly require sophisticated, experienced IT assistance to achieve their business objectives and often rely on IT service providers to help implement and manage their systems. However, many middle-market companies rely on multiple providers for their IT needs. Generally, the Company believes that this reliance on multiple providers results from the fact that larger IT service providers do not target these companies, while smaller IT service providers, which do target these companies, lack sufficient breadth of services or industry knowledge to satisfy all of these companies' needs. The Company believes this reliance on multiple service providers creates multiple relationships that are more difficult and less cost-effective to manage than a single relationship and can adversely influence the quality and compatibility of IT solutions. RCM is structured to provide middle-market companies a single source for their IT needs.

The Company's Engineering group continues to focus on areas of growth within the energy and aerospace industries. In recent years, many businesses have been adversely impacted by higher oil prices, and for that and various other reasons, there has been growing sentiment around the world for the development of alternative sources of energy, including a renewed interest in nuclear power. Over the same period, there has been a significant increase in spending in the United States in the aerospace and defense industries due largely to a strengthening of the military and homeland security in response to armed conflicts, geo-political unrest and the threat of terrorism. The combination of higher energy prices and increased military spending has created numerous business opportunities for service providers, especially those engaged in engineering operations in North America and abroad.

In the healthcare services industry, a shortage of nurses and other medical personnel in the United States has led to increases in business activity for health care service companies, including the Company's Specialty Healthcare Group. Due in part to an aging population and improved medical technology, the demand for selected health care professionals is expected to continue over the next several years.

Business Strategy

RCM is dedicated to providing solutions to meet its clients' business needs by delivering information technology and engineering services. The Company's objective is to be a recognized leader of specialized professional consulting services and solutions in major markets throughout North America. The Company is adapting operating strategies to achieve this objective. Key elements of its growth and operating strategies are as follows:

ITEM 1. BUSINESS (CONTINUED)

Growth Strategy

Promote Full Life Cycle Solution Capability
The Company promotes a full life cycle solution capability to its customers. The goal of the full life cycle solution strategy is to fully address a client's project implementation cycle at each stage of its development and deployment. This entails the Company working with its clients from the initial conceptualization of a project through its design and project execution, and extending into ongoing management and support of the delivered product. RCM's strategy is to build projects and solutions offerings selectively, utilizing its extensive resource base.

The Company believes that the effective execution of this strategy will generate improved margins on its existing resources. The completion of this service-offering continuum is intended to afford the Company the opportunity to strengthen long-term client relationships that will further contribute to a more predictable revenue stream.

In addition to a full life cycle solution offering, the Company continues to focus on transitioning into higher value oriented services in an effort to increase its margins on its various service lines (relative to lower value services) and generate revenue that is more sustainable. The Company believes this transition is accomplished by pursuing additional vertical market specific solutions in conjunction or combination with longer-term based solutions, through expansion of its client relationships and by pursuing strategic alliances and partnerships.

Achieve Internal Growth
The Company continues to promote its internal growth strategies which we designed to better serve the Company's customers, generate higher revenue and achieve greater operating efficiencies. National and regional sales management programs have been designed and implemented to segregate clients by vertical market and national accounts to advance a value added services focus. This process is improving account coordination with the intent to allow clients to benefit from deeper industry knowledge and the Company to maximize major account opportunities.

RCM provides an orientation program in which sales managers and professionals receive relevant information about Company operations.

RCM has adopted an industry-centric approach to sales and marketing. This initiative contemplates that clients within the same industry sectors tend to have common business challenges. It therefore allows the Company to present and deliver enhanced value to those clients in the vertical markets in which RCM has assembled the greatest work experience. RCM's consultants continue to acquire project experience that offers differentiated awareness of the business challenges that clients in that industry are facing. This alignment also facilitates and creates additional cross-selling opportunities. The Company believes this strategy will lead to greater account penetration and enhanced client relationships.

Operational strategies contributing to RCM's internal productivity include the delineation of certain new solutions practice areas in markets where its clients had historically known the Company as a contract service provider. The formation of these practice areas should facilitate the flow of project opportunities and the delivery of project-based solutions.

Pursue Selective Strategic Acquisitions
The industry in which the Company operates continues to be highly fragmented, and the Company plans to continue to selectively assess opportunities to make strategic acquisitions as such opportunities are presented to the Company. The Company's acquisition strategy is designed to broaden the scope of services and technical competencies and grow its full life cycle solution capabilities. In considering acquisitions, the Company focuses principally on companies

with (i) technologies or market segments RCM has targeted for strategic value enhancement, (ii) margins that are accretive to existing margins, (iii) experienced management personnel, (iv) substantial growth prospects and (v) sellers who desire to join the Company's management team. To retain and provide incentives for management of its acquired companies, the Company has generally structured a significant portion of the acquisition price in the form of multi-tiered consideration based on growth of operating profitability of the acquired company over a two to four year period.

ITEM 1. BUSINESS (CONTINUED)

Operating Strategy

Develop and Maintain Strong Customer Relationships
The Company seeks to develop and maintain strong interactive customer relationships by anticipating and focusing on its customers' needs. The Company emphasizes a relationship-oriented approach to business, rather than the transaction or assignment-oriented approach that the Company believes is used by many of its competitors. This industry-centric strategy is designed to allow RCM to expand further its relationships with clients in RCM’s targeted sectors.

To develop close customer relationships, the Company's practice managers regularly meet with both existing and prospective clients to help design solutions and identify the resources needed to execute their strategies. The Company's managers also maintain close communications with their customers during each project and on an ongoing basis after its completion. The Company believes that this relationship-oriented approach can result in greater customer satisfaction. Additionally, the Company believes that by collaborating with its customers in designing business solutions, it can generate new opportunities to cross-sell additional services that the Company has to offer. The Company focuses on providing customers with qualified individuals or teams of experts compatible with the business needs of its customers and makes a concerted effort to follow the progress of such relationships to ensure their continued success.

Attract and Retain Highly Qualified Consultants and Technical Resources
The Company believes it has been successful in attracting and retaining qualified consultants and contractors by (i) providing stimulating and challenging work assignments, (ii) offering competitive wages, (iii) effectively communicating with its candidates, (iv) providing selective training to maintain and upgrade skills and (v) aligning the needs of its customers with appropriately skilled personnel. The Company believes it has been successful in retaining these personnel due in part to its use of practice managers who are dedicated to maintaining contact with, and monitoring the satisfaction levels of, the Company's consultants while they are on assignment.

Centralize Administrative Functions
The Company continues to improve its operational efficiencies by integrating general and administrative functions at the corporate or regional level, and reducing or eliminating redundant functions formerly performed at smaller branch offices. This enables the Company to realize savings and synergies and to control and monitor its operations efficiently, as well as to quickly integrate new acquisitions. It also allows local branches to focus more on growing their local operations.

To accomplish this, the Company’s financial reporting and accounting systems are centralized in the Company’s operational headquarters in Parsippany, NJ. The systems have been configured to allow the performance of all back office functions, including payroll, project management, project cost accounting, billing, human resource administration and financial reporting and consolidation. The Company anticipates upgrading its financial reporting and accounting system platform sometime in the fiscal year ending December 31, 2011.

ITEM 1. BUSINESS (CONTINUED)

Information Technology

The Company's IT segment is comprised of two business groups – the IT Consulting Business Group and the IT Solutions Business Group. The IT Consulting Business Group consists of three business units in North America – the Eastern Region, the Central Region and the Western Region. The Solutions Business Group consists of three business units – IT Enterprise Management, Enterprise Business Solutions and Life Sciences.

The RCM Enterprise Business Solutions Group's core business mission is to continue its strategic transformation designed to focus the Company on developing proprietary customized solutions and intellectual property by bundling software, systems, tools and services into integrated business and technology solutions.

RCM's sector knowledge coupled with technical and business process experience enable the Company to provide strategic planning and direction, rigorous project execution, and management and support services for an entire project life cycle. RCM has successfully completed multimillion-dollar projects in a variety of industry verticals using time-tested methodologies that manage strict budgets, timelines and quality metrics.

Among those IT services provided by RCM to its clients are:

- Enterprise Business Solutions
- Application Services
- Infrastructure Solutions
- Competitive Advantage & Productivity Solutions
- Life Sciences Solutions

The Company believes that its ability to deliver information technology solutions across a wide range of technical platforms provides an important competitive advantage. RCM ensures that its consultants have the expertise and skills needed to keep pace with rapidly evolving information technologies. The Company's strategy is to maintain expertise and acquire knowledge in multiple technologies so it can offer its clients non-biased technology solutions best suited to their business needs.

The Company provides its IT services through a number of flexible delivery methods. These include management consulting engagements, project management of client efforts, project implementation of client initiatives, outsourcing, both on and off site, and a full complement of resourcing alternatives.

As of January 1, 2011, the Company had assigned approximately 530 information technology employees and consultants to its customers.

ITEM 1. BUSINESS (CONTINUED)

Engineering

The Company's Engineering segment consists of three business units – Engineering Services and Projects, Power Systems Services USA and Power Systems Services Canada. The Engineering Services and Projects unit includes Aerospace, Manufacturing and Industrial Engineering divisions. The Power Systems units focus primarily on the nuclear power, fossil fuel and electric utility industries.

RCM provides a full range of Engineering services including Engineering & Design, Engineering Analysis, Engineer-Procure-Construct, Configuration Management, Hardware/Software Validation & Verification, Quality Assurance, Technical Writing & Publications, Manufacturing Process Planning & Improvement, Reliability Centered Maintenance (RCM), Component & Equipment Testing and Risk Management Engineering. Engineering services are provided at the site of the client or, less frequently, at the Company's own facilities.

The Company believes that the deregulation of the utilities industry and the aging of nuclear power plants offer the Company an opportunity to capture a greater share of professional services and project management requirements of the utilities industry both in engineering services and through cross-selling of its information technology services. Heightened competition, deregulation and rapid technological advances are forcing the utilities industry to make fundamental changes in its business process. These pressures have compelled the utilities industry to focus on internal operations and maintenance activities and to increasingly outsource their personnel requirements. Additionally, the Company believes that competitive performance demands from deregulation should increase the importance of information technology to this industry. The Company believes that its expertise and strong relationships with certain customers within the utilities industry position the Company to be a leading provider of professional services to the utilities industry.

The Company provides its engineering services through a number of delivery methods. These include managed tasks and resources, complete project services, outsourcing, both on and off-site, and a full complement of resourcing alternatives.

As of January 1, 2011, the Company had assigned approximately 450 engineering and technical employees and consultants to its customers.

Specialty Health Care

The Company's Specialty Health Care Group specializes in long-term and short-term staffing as well as executive search and placement for the following fields: rehabilitation (physical therapists, occupational therapists and speech language pathologists), nursing, managed care, allied health care, health care management and medical office support. The specialty health care group provides services to hospitals, long-term care facilities, schools, sports medicine facilities and private practices. Services include in-patient, outpatient, sub-acute and acute care, multilingual speech pathology, rehabilitation, and geriatric, pediatric, and adult day care. Typical engagements either range from three to six months or are on a day-to-day shift basis.

As of January 1, 2011, the Company had assigned approximately 420 specialty health care services personnel to its customers.

ITEM 1. BUSINESS (CONTINUED)

Branch Offices

The Company's organization consists of 26 branch offices located in the United States, Canada, Puerto Rico and Ireland. The locations and services of each of the branch offices are set forth in the table below.

LOCATION	NUMBER OF OFFICES	SERVICES PROVIDED(1)
USA		
California	2	IT, HC
Connecticut	1	E
Florida	1	HC
Maryland	1	IT
Massachusetts	1	IT
Michigan	3	IT, E
Minnesota	1	IT
New Jersey	3	IT, E
New York	2	IT, E, HC
Ohio	1	IT
Pennsylvania	1	HC
Rhode Island	1	E
Texas	1	IT
Wisconsin	2	IT, E
	21	
CANADA	3	IT, E
PUERTO RICO	1	IT
IRELAND	1	IT

(1) Services provided are abbreviated as follows:
IT - Information Technology
E - Engineering
HC - Specialty Health Care

Branch offices are primarily located in markets that the Company believes have strong growth prospects for IT and Engineering services. The Company's branches are operated in a decentralized, entrepreneurial manner with most branch offices operating as independent profit centers. The Company's branch managers are given significant autonomy in the daily operations of their respective offices and, with respect to such offices, are responsible for overall guidance and supervision, budgeting and forecasting, sales and marketing strategies, pricing, hiring and training. Branch managers are paid on a performance-based compensation system designed to motivate the managers to maximize growth and profitability.

ITEM 1. BUSINESS (CONTINUED)

Branch Offices (Continued)

The Company is domiciled in the United States and its segments operate in the United States, Canada, Puerto Rico and Ireland. Revenues for the fiscal year ended January 1, 2011 and total assets by geographic area as of January 1, 2011 are as follows (in thousands):

	Revenues	Total Assets
United States	$131,899	$69,931
Canada	26,850	11,734
Puerto Rico	3,153	1,010
Ireland	120	337
	$162,022	$83,012

The Company believes that substantial portions of the buying decisions made by users of the Company's services are made on a local or regional basis and that the Company's branch offices most often compete with local and regional providers. Since the Company's branch managers are in the best position to understand their local markets and customers often prefer local providers, the Company believes that a decentralized operating environment enhances operating performance and contributes to employee and customer satisfaction.

From its headquarters locations in New Jersey, the Company provides its branch offices with centralized administrative, marketing, finance, MIS, human resources and legal support. Centralized administrative functions minimize the administrative burdens on branch office managers and allow them to spend more time focusing on sales and marketing and practice development activities.

The Company's principal sales offices typically have one general manager, one sales manager, three to six sales people, several technical delivery or practice managers and several recruiters. The general managers report to regional vice presidents who are responsible for ensuring that performance goals are achieved. The Company's regional vice presidents meet frequently to discuss "best practices" and ways to increase the Company's cross selling of its professional services. The Company's practice managers meet periodically to strategize, maintain continuity, and identify developmental needs and cross-selling opportunities.

Sales and Marketing

Sales and marketing efforts are conducted at the local and or regional level through the Company's network of branch offices. The Company emphasizes long-term personal relationships with customers that are developed through regular assessment of customer requirements and proactive monitoring of personnel performance. The Company's sales personnel make regular visits to existing and prospective customers. New customers are obtained through active sales programs and referrals. The Company encourages its employees to participate in national and regional trade associations, local chambers of commerce and other civic associations. The Company seeks to develop strategic partnering relationships with its customers by providing comprehensive solutions for all aspects of a customer's information technology, engineering and other professional services needs. The Company concentrates on providing carefully screened professionals with the appropriate skills in a timely manner and at competitive prices. The Company regularly monitors the quality of the services provided by its personnel and obtains feedback from its customers as to their satisfaction with the services provided.

The Company has elevated the importance of working with and developing its partner alliances with technology firms. Partner programs are in place with firms RCM has identified as strategically important to the completeness of the service offering of the Company. Relations have been established with firms such as ADP, Harland Financial, IBM, Mercury, Microsoft, Oracle and QAD, among others. The partner programs may be managed either at a national level from RCM's corporate offices or at a regional level from its branch offices.

ITEM 1. BUSINESS (CONTINUED)

Sales and Marketing (Continued)

The Company’s larger representative customers include 3M, ADP, Aramark, Bristol Myers Squibb, Bruce Power, Dow Chemical USA, Entergy, Exelon Nuclear, FlightSafety International, Lilly del Caribe, Mercury Insurance Group, Microsoft, New York City Department of Education, New York Power Authority, Ontario Power Generation, Pfizer, Pragmatics, PSE&G, QualxServ, United Technologies Corporation, U.S. Department of the Treasury, Vermont Yankee Nuclear Power, Warner Chilcott and Wells Fargo. The Company serves Fortune 1000 companies and many middle market clients. The Company's relationships with these customers are typically formed at the customers’ local or regional level and from time to time, when appropriate, at the corporate level for national accounts.

During the fiscal year ended January 1, 2011, United Technologies Corporation and Bruce Power accounted for 13.3% and 10.8% of the Company’s revenues, respectively. No other customer accounted for 10% or more of the Company’s revenues in that period. The Company's five, ten and twenty largest customers accounted for approximately 36.9%, 44.1% and 54.6%, respectively, of the Company's revenues for the fiscal year ended January 1, 2011.

Recruiting and Training

The Company devotes a significant amount of time and resources, primarily at the branch level, to locating, training and retaining its professional personnel. Full-time recruiters utilize the Company's proprietary databases of available personnel, which are cross-indexed by competency and skill to match potential candidates with the specific project requirements of the customer. The qualified personnel in the databases are identified through numerous activities, including networking, referrals, trade shows, job fairs, schools, newspaper and trade journal advertising, Internet recruiting services and the Company’s website.

The Company believes that a significant element of the Company's success in retaining qualified consultants and contract personnel is the Company's use of consultant relationship managers and technical practice managers. Consultant relationship managers are qualified Company personnel dedicated to maintaining on-site contact with, and monitoring the satisfaction levels of, the Company's consultants and contract personnel while they are on assignment. Practice managers are consulting managers responsible for the technical development and career development of the Company’s technical personnel within the defined practice areas. The Company provides technical training and skills development through vendor-sponsored courses, computer-based training tools and on the job mentoring programs.

Information Systems

RCM has continued to engage in strategic initiatives to improve upon its ability to secure data, deliver services and improve on its communication infrastructure.

RCM has partnered with vendors like AT&T, Microsoft, Cisco, SAP and DELL deploying their business solutions internally. All perimeter devices have been standardized on Cisco hardware; internal devices (Servers, Desktops, laptops, printers, etc) are DELL based; with AT&T communication lines throughout the enterprise, facilitating centralized management and support of the network.

RCM has upgraded its perimeter network and WAN architecture throughout the US and Canada, to a secure centralized model on Private Network Transport (PNT /AVPN) AT&T circuits, utilizing Multiple Packet Label Switching (MPLS) transport protocol. The hub datacenter at its operational headquarters has been outfitted with redundant fiber circuits from AT&T and Optimum Lightpath utilizing Border gateway Protocol (BGP) for automatic failover. Redundant firewalls, routers and switching architecture protects against hardware failure. Access to the network is only allowed via SSL or IPSec 3DES protocols.

ITEM 1. BUSINESS (CONTINUED)

Information Systems (Continued)

The move to service oriented architecture facilitated the implementation of the Cisco Voice over IP (VOIP) solution which is currently deployed throughout RCM's offices. This enterprise solution, based on Cisco Call Manager, Unity voicemail, Mobility Manager, Meeting Place, Fax Server and Video Presence has effectively unified all RCM offices in the US and Canada. Summary of benefits include four digit extension calls between RCM offices, email and voicemail unification, soft and mobile phone integration, video and web conferencing, central and email enabled faxing.

RCM's messaging architecture is currently based on the Microsoft Exchange 2007 and Cisco Unity platform. The Microsoft Exchange platform is scheduled to be upgraded to Exchange 2010 sometime in the fiscal year ending December 31, 2011. The current mail system is comprised of redundant mail routing servers and clustered mailbox servers attached to a Storage Area Network (SAN) This messaging platform has the current capacity of six Terabytes (TB), with the capability of scaling to 18 Terabytes (TB). In addition to mail storage being sized for VOIP integration, web access to the mail server is only allowed via secure HTTPs protocol. Augmenting the messaging architecture is a mail archiving solution by GFI to accommodate disaster recovery, compliance and litigation requirements.

The Company has upgraded the ERP hardware, Application and Operating system, to accommodate its growing needs. The branch offices of the Company are networked to the corporate offices via private circuits, which enable the ERP application to be accessed securely at all operational locations. The ERP system supports Company-wide operations such as payroll, billing, human resources, project systems, accounts receivable, accounts payable, all general ledger accounting and consolidation reporting functionality. The Company has concluded that an upgrade of the current version to SAP ECC60 is the best fit for RCM's business needs and anticipates beginning an upgrade sometime in the fiscal year ending December 31, 2011.

The Company also has Autotime and TES, automated time and attendance systems, which augments the SAP ERP application by catering to the needs of its diverse business offerings and distributed workforce. The applications are housed on a three-tiered DELL server architecture, and are currently servicing Canadian and US offices.

The Company's internet presence is an integral part of its strategic initiative to improve visibility and contextualize its business offerings. The first pilot rollout of a new site is scheduled for early in the fiscal year ending December 31, 2011, seeking to make the site more interactive, improve web analytics, Search Engine Optimization, and enhanced user experience.

The Company is utilizing JobDiva, an application service provider (ASP) solution. Recruiting (e.g. Candidate) and Sales (e.g. Requirement) tracking. The integrated solution allows RCM to track all client requirements on an enterprise level. Job Diva permits RCM recruiters to search multiple sources (e.g. job boards) to identify and match suitable candidates for an opportunity or need. Job Diva allows RCM to build and maintain a proprietary database of prequalified candidates, thereby enhancing our ability to respond quickly to client demands. Furthermore, the solution increases visibility internally to sales personnel and the management team to manage client priorities not only on a localized, but a national basis. Customized reporting and query capabilities allow RCM management to monitor personnel performance and client responsiveness. All data and information is accessible via a web portal.

In the interest of consolidation and being green, RCM is currently deploying virtualization technology from VMware and Microsoft. The target is to achieve a 60 percent reduction in server footprint by late in the fiscal year ending December 31, 2011, as well as to capitalize on the efficiencies of V-motion, fault tolerance, high availability and management, which are an integral part of this technology.

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ITEM 1. BUSINESS (CONTINUED)

Other Information

Safeguards - Business, Disaster and Contingency Planning
RCM has implemented a number of safeguards to protect the Company from various system-related risks including a warm data center disaster recovery site, redundant telecommunications and server systems architecture, multi-tiered server and desktop backup infrastructure, and data center physical and environmental controls. In addition, RCM has developed disaster recovery / business continuity procedures for all offices.

Given the significant amount of data generated in the Company's key processes including recruiting, sales, payroll and customer invoicing, RCM has established redundant procedures, functioning on a daily basis, within the Company's primary data center. This redundancy should mitigate the risks related to hardware, application and data loss by utilizing the concept of live differential backups of servers and desktops to Storage Area (SAN) devices on its backup LAN, culminating in offsite tape storage at an independent facility. Besides the local tape backup rotation of branch office systems, data is also replicated to SAN devices in Parsippany to achieve business continuity. Controls within the data center environment ensure that all systems are proactively monitored and data is properly archived.

Additionally, RCM has contracted and brokered strategic relationships with third-party vendors to meet its recovery objectives in the event of a system disruption. For example, comprehensive service level agreements provided by AT&T and Cisco for RCM's data circuits and network devices, guarantee minimal outages as well as network redundancy and scalability. The Disaster Recovery site, located at the corporate office in Pennsauken, NJ, provides WAN, ERP, VOIP, file, application and messaging services should the primary data center facility at Parsippany, NJ, become inoperable.

The Company's ability to protect its data assets against damage from fire, power loss, telecommunications failures, and facility violations is critical. The Company uses Websense mail management service to filter all emails destined for the RCMT domain before being delivered to the corporate mail servers. Websense, web filtering has also been deployed to safeguard the enterprise from malicious internet content. The deployment of virus, spam, and patch management controls extends from the perimeter network to all desktops and is centrally monitored and managed. In addition to the virus and malware controls, an Intrusion Protection System (IPS) monitors and alerts on changes in network traffic patterns as well as known hostile signatures.

The Company maintains a disaster recovery plan that outlines the recovery time / point objectives (RTO / RPO), organization structure, roles and procedures, including site addendum disaster plans for all of its key operating offices. Corporate IT personnel regulate the maintenance and integrity of backed-up data throughout the Company.

Competition

The market for IT and engineering services is highly competitive and is subject to rapid change. As the market demand has shifted, many software companies have adopted tactics to pursue services and consulting offerings making them direct competitors when in the past they may have been alliance partners. Primary competitors include participants from a variety of market segments, including publicly and privately held firms, systems consulting and implementation firms, application software firms, service groups of computer equipment companies, facilities management companies, general management consulting firms and staffing companies. In addition, the Company competes with its clients' internal resources, particularly where these resources represent a fixed cost to the client. Such competition may impose additional pricing pressures on the Company.

The Company believes its principal competitive advantages in the IT and engineering services market include: strong relationships with existing clients, a long-term track record with over 1,000 clients, a broad range of services, technical expertise, knowledge and experience in multiple industry sectors, quality and flexibility of service, responsiveness to client needs and speed in delivering IT solutions.

Additionally, the Company competes for suitable acquisition candidates based on its differentiated acquisition model, its entrepreneurial and decentralized operating philosophy, and its strong corporate-level support and resources.

ITEM 1. BUSINESS (CONTINUED)

Seasonality

The Company's operating results can be affected by the seasonal fluctuations in client expenditures. Expenditures in the Information Technology and Engineering segments can be negatively impacted during the first quarter of the year when clients are finalizing their budgets. Quarterly results generally fluctuate depending on, among other things, the number of billing days in a quarter and the seasonality of clients' businesses. The business is also affected by the timing of holidays and seasonal vacation patterns, generally resulting in lower revenues and gross profit in the fourth quarter of each year. Extreme weather conditions may also affect demand in the first and fourth quarters of the year as certain clients' facilities are located in geographic areas subject to closure or reduced hours due to inclement weather. The Company generally experiences an increase in its cost of sales and a corresponding decrease in gross profit and gross margin percentage in the first and second fiscal quarters of each year as a result of resetting certain state and federal employment tax rates and related salary limitations. Also, the Company's Specialty Health Care segment typically experiences a significant decline in revenues due to the substantial closure of one of its largest customers, the New York City Department of Education, during summer recess.

Employees

As of January 1, 2011, the Company employed an administrative, sales, recruiting and management staff of approximately 190 people, including certified IT specialists and licensed engineers who, from time to time, participate in IT and engineering design projects undertaken by the Company. As of January 1, 2011, there were approximately 530 information technology and 450 engineering and technical employees and consultants assigned by the Company to work on client projects for various periods. As of January 1, 2011, there were approximately 420 specialty health care services employees assigned to clients. None of the Company's employees is represented by a collective bargaining agreement. The Company considers its relationship with its employees to be good.

Access to Company Information

RCM electronically files its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports with the Securities and Exchange Commission ("SEC"). The public may read and copy any of the reports that are filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxies, information statements, and other information regarding issuers that file electronically.

RCM makes available on its website or by responding free of charge to requests addressed to the Company's Corporate Secretary, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed by the Company with the SEC pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. These reports are available as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The Company's website is http://www.rcmt.com. The information contained on the Company's website, or on other websites linked to the Company's website, is not part of this document. Reference herein to the Company's website is an inactive text reference only.

RCM has adopted a Code of Conduct applicable to all of its directors, officers and employees. In addition, the Company has adopted a Code of Ethics, within the meaning of applicable SEC rules, applicable to its Chief Executive Officer, Chief Financial Officer and Controller. Both the Code of Conduct and Code of Ethics are available, free of charge, by sending a written request to the Company's Corporate Secretary. If the Company makes any amendments to either of these Codes (other than technical, administrative, or other non-substantive amendments), or waive (explicitly or implicitly) any provision of the Code of Ethics to the benefit of its Chief Executive Officer, Chief Financial Officer or Controller, it intends to disclose the nature of the amendment or waiver, its effective date and to whom it applies in the investor relations portion of the website, or in a report on Form 8-K filed with the SEC.

ITEM 1A. RISK FACTORS

The Company's business involves a number of risks, some of which are beyond its control. The risk and uncertainties described below are not the only ones the Company faces. Management believes that the most significant of these risks and uncertainties are as follows:

Economic Trends

The global economic crisis has caused, among other things, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. Any or all of these developments could negatively affect the Company's business, operating results or financial condition in a number of ways. For example, current or potential customers may be unable to fund capital spending programs, new product launches of other similar endeavors whereby they might procure services from the Company, and therefore delay, decrease or cancel purchases of services or not pay or delay paying for previously purchased services. In addition, financial institution failures may cause the Company to incur increased expenses or make it more difficult either to utilize existing debt capacity or otherwise obtain financing for operations, investing activities (including the financing of any future acquisitions), or financing activities.

Government Regulations

Staffing firms and employment service providers are generally subject to one or more of the following types of government regulation: (1) regulation of the employer/employee relationship between a firm and its employees, including tax withholding or reporting, social security or retirement, benefits, workplace compliance, wage and hour, anti-discrimination, immigration and workers' compensation; (2) registration, licensing, record keeping and reporting requirements; and (3) federal contractor compliance. Failure to comply with these regulations could result in the Company incurring penalties and other liabilities, monetary and otherwise.

Highly Competitive Business

The staffing services and outsourcing markets are highly competitive and have limited barriers to entry. RCM competes in global, national, regional, and local markets with numerous temporary staffing and permanent placement companies. Price competition in the staffing industry is significant and pricing pressures from competitors and customers are increasing. In addition, there is increasing pressure on companies to outsource certain areas of their business to low cost offshore outsourcing firms. RCM expects that the level of competition will remain high in the future, which could limit RCM's ability to maintain or increase its market share or profitability.

As described in Item 1, "Business," our operating results are subject to seasonal fluctuations, with reduced demand often occurring during first quarter of the year when clients are finalizing their IT and engineering budgets, and also during periods in which there are a substantial amount of holidays and season vacations. In particular, one of the largest customers in our Specialty Health Care group, the New York City Department of Education, significantly reduces activity during the summer months, when schools are closed. Our operating results for any given period may fluctuate as a result of the timing of holidays, vacations and other events, and if we were to experience unfavorable performance during periods in which we would otherwise expect to have high seasonal demand, we may have limited ability to make up for such performance during periods of seasonally lower demand.

Events Affecting Significant Customers

As disclosed in Item 1, "Business," the five, ten and twenty largest customers accounted for approximately 36.9%, 44.1% and 54.6%, respectively, of revenues for the fiscal year ended January 1, 2011. Some of these customers may be affected by the current state of the economy or developments in the credit markets. The Company's customers may engage in mergers or similar transactions. In addition, customers may choose to reduce the business they do with RCM for other reasons or no reason. Should any significant customers experience a downturn in their business that weakens their financial condition or merge with another company or otherwise cease independent operation, or limit their relationship with us, it is possible that the business that the customer does with the Company would be reduced or eliminated, which could adversely affect financial results.

ITEM 1A. RISK FACTORS (CONTINUED)

Dependence Upon Personnel

The Company's operations depend on the continued efforts of its officers and other executive management. The loss of key officers and members of executive management may cause a significant disruption to the Company's business. RCM also depends on the performance and productivity of its local managers and field personnel. The Company's ability to attract and retain new business is significantly affected by local relationships and the quality of service rendered. The loss of key managers and field personnel may also jeopardize existing client relationships with businesses that continue to use the Company's services based upon past relationships with local managers and field personnel. In order to fulfill the requirements of the Company's customers, the Company must be able to recruit and retain appropriate personnel for client assignments.

Revolving Credit Facility and Liquidity

If the Company was unable to borrow under its Revolving Credit Facility, it may adversely affect liquidity, results of operations and financial condition. The Company's liquidity depends on its ability to generate sufficient cash flows from operations and, from time to time, borrowings under the Revolving Credit Facility with the Company's agent lender Citizens Bank of Pennsylvania. The Company believes that Citizens Bank is liquid and is not aware of any current risk that they will become illiquid. At January 1, 2011, the Company had outstanding borrowings under the Revolving Credit Facility of $0.0 million, and letters of credit outstanding for $0.9 million.

The Revolving Credit Facility contains various financial and non-financial covenants. At January 1, 2011, the Company was in compliance with the covenants and other provisions of the Credit Facility. Any failure to be in compliance could have a material adverse effect on liquidity, results of operations and financial condition.

Goodwill and Intangible Impairments May Have an Adverse Effect on Financial Statements

As of January 1, 2011, the Company had $7.3 million of goodwill and $0.3 million intangible assets on its balance sheet, which represents 9.2% of total assets. Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company is required to perform a goodwill and intangible asset impairment test on at least an annual basis. Application of the goodwill and intangible asset impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill and intangible asset impairment for each reporting unit. The Company conducts its annual goodwill and intangible asset impairment test as of the last day of the Company's fiscal November each year, or more frequently if indicators of impairment exist. We periodically analyze whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in share price and market capitalization, a decline in expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower expected growth rates, among others. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill and intangible assets. There were no triggering events during the fiscal year ended January 1, 2011 that indicated a need to perform the impairment test prior or subsequent to the Company's annual test date. There can be no assurance that future tests of goodwill and intangible asset impairment will not result in impairment charges. If the Company is required to write down goodwill or intangible assets, the related charge could materially reduce reported net income or result in a net loss for the period in which the write down occurs.

ITEM 1A. RISK FACTORS (CONTINUED)

Workers' Compensation and Employee Medical Insurance

The Company self-insures a portion of the exposure for losses related to workers' compensation and employees' medical insurance. The Company has established reserves for workers' compensation and employee medical insurance claims based on historical loss statistics and periodic independent actuarial valuations. Significant differences in actual experience or significant changes in assumptions may materially affect the Company's future financial results.

Improper Activities of Temporary Professionals Could Result in Damage to Business Reputation, Discontinuation of Client Relationships and Exposure to Liability

The Company may be subject to claims by clients related to errors and omissions, misuse of proprietary information, discrimination and harassment, theft and other criminal activity, malpractice, and other claims stemming from the improper activities or alleged activities of temporary professionals. There can be no assurance that current liability insurance coverage will be adequate or will continue to be available in sufficient amounts to cover damages or other costs associated with such claims.

Claims raised by clients stemming from the improper actions of temporary professionals, even if without merit, could cause the Company to incur significant expense associated with rework costs or other damages related to such claims. Furthermore, such claims by clients could damage the Company's business reputation and result in the discontinuation of client relationships.

Acquisitions May Not Succeed

The Company reviews prospective acquisitions as an element of its growth strategy. The failure of any acquisition to meet the Company's expectations, whether due to a failure to successfully integrate any future acquisition or otherwise, may result in damage to the Company's financial performance and/or divert management's attention from its core operations or could negatively affect the Company's ability to meet the needs of its customers promptly.

International Operations

The Company operates its business in Canada and, to a less significant extent, in Puerto Rico and Ireland. For the fiscal year ended January 1, 2011, nearly 20% of the Company's revenues were generated outside the United States. There are certain risks inherent in conducting business internationally including: the imposition of trade barriers, foreign exchange restrictions, longer payment cycles, greater difficulties in accounts receivables collection, difficulties in complying with a variety of foreign laws, changes in legal or regulatory requirements, difficulties in staffing and managing foreign operations, political instability and potentially adverse tax consequences. To the extent we experience these risks, our business and results of operations could be adversely affected.

Foreign Currency Fluctuations and Changes in Exchange Rates

The Company is exposed to risks associated with foreign currency fluctuations and changes in exchange rates. RCM's exposure to foreign currency fluctuations relates to operations in Canada, principally conducted through its Canadian subsidiary. Exchange rate fluctuations affect the U.S. dollar value of reported earnings derived from the Canadian operations as well as the carrying value of the Company's investment in the net assets related to these operations. The Company does not engage in hedging activities with respect to foreign operations.

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ITEM 1A. RISK FACTORS (CONTINUED)

Trademarks

Management believes the RCM Technologies, Inc. name is extremely valuable and important to its business. The Company endeavors to protect its intellectual property rights and maintain certain trademarks, trade names, service marks and other intellectual property rights, including The Source of Smart Solutions®. The Company is not currently aware of any infringing uses or other conditions that would be reasonably likely to materially and adversely affect the Company's use of its proprietary rights.

Data Center Capacity and Telecommunication Links

Uninterruptible Power Supply (UPS), card key access, fire suppression, and environmental control systems protect RCM’s datacenter. All systems are monitored on a 24/7 basis with alerting capabilities via voice or email. The telecommunications architecture at RCM utilizes managed private circuits from AT&T, which encompasses provisioning redundancy and diversity.

RCM’s ability to protect its data center against damage from fire, power loss, telecommunications failure and other disasters is critical to business operations. In order to provide many of its services, RCM must be able to store, retrieve, process and manage large databases and periodically expand and upgrade its capabilities. Any damage to the Company’s data centers or any failure of the Company’s telecommunication links that interrupts its operations or results in an inadvertent loss of data could adversely affect RCM’s ability to meet its customers’ needs and their confidence in utilizing RCM for future services.

RCM’s ability to protect its data, provide services and safeguard its installations, as it relates to the IT infrastructure, is in part dependent on several outside vendors with whom the Company maintains service level agreements.

Litigation

The Company is currently, and may in the future become, involved in legal proceedings and claims arising from time to time in the course of its business, including the litigation described in Note 17 (Contingencies) to the consolidated financial statements. An adverse outcome to the referenced litigation or other cases arising in the future could have an adverse impact on the consolidated financial position and consolidated results of operations of the Company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company provides specialty professional consulting services, principally performed at various client locations, through 26 administrative and sales offices located in the United States, Puerto Rico, Canada and Ireland. The majority of the Company's offices typically consist of 1,000 to 10,000 square feet and are leased by the Company for terms of one to three years. Offices in larger or smaller markets may vary in size from the typical office. The Company does not expect that it will be difficult to maintain or find suitable lease space at reasonable rates in its markets or in areas where the Company contemplates expansion.

The Company's executive office is located at 2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613. These premises consist of approximately 11,500 square feet and are leased at a rate of approximately $14.00 per square foot per annum for a term ending on August 31, 2012.

The Company's operational office is located at 20 Waterview Boulevard, 4th Floor, Parsippany, NJ 07054-1271. These premises consist of approximately 28,000 square feet and are leased at a rate of approximately $29.00 per square foot per annum for a term ending on June 30, 2012.

ITEM 3. LEGAL PROCEEDINGS

Included in the Company's accounts payable and accrued expenses is a provision for losses from legal matters aggregating approximately $0.6 million and $0.7 million as of January 1, 2011 and January 2, 2010, respectively. Asserted claims in these matters seek approximately $6.8 million in damages as of January 1, 2011.

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

See further discussion of Legal Proceedings in Note 17 (Contingencies) to the consolidated financial statements included in Item 8 of this Report.

ITEM 4. [REMOVED AND RESERVED]

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Shares of the Company's common stock are traded on The NASDAQ Global Market under the Symbol "RCMT." The following table sets forth approximate high and low sales prices for the two years in the period ended January 1, 2011 as reported by The NASDAQ Global Market:

		Common Stock	
Fiscal Year Ended January 2, 2010		High	Low
	First Quarter	$1.88	$0.90
	Second Quarter	$2.49	$1.02
	Third Quarter	$2.44	$1.47
	Fourth Quarter	$3.10	$2.10
Fiscal Year Ended January 1, 2011			
	First Quarter	$3.60	$2.35
	Second Quarter	$5.23	$3.12
	Third Quarter	$5.29	$4.25
	Fourth Quarter	$5.30	$4.36

Holders

As of February 4, 2011, the approximate number of holders of record of the Company's Common Stock was 479. Based upon the requests for proxy information in connection with the Company's 2011Annual Meeting of Stockholders, the Company believes the number of beneficial owners of its Common Stock is approximately 2,166.

Dividends

The Company has never declared or paid a cash dividend on the Common Stock and does not anticipate paying any cash dividends in the foreseeable future. It is the current policy of the Company's Board of Directors to retain all earnings to finance the development and expansion of the Company's business. Any future payment of dividends will be at the discretion of the Board of Directors and will depend upon, among other things, the Company's earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions, and other factors that the Board of Directors deems relevant. The Revolving Credit Facility (as defined in Item 7 hereof) prohibits the payment of dividends or distributions on account of the Company's capital stock without the prior consent of the majority of the Company's lenders.

Stock Repurchase by Issuer

The following table provides information relating to the Company's repurchases of common stock during the fourth quarter of the fiscal year ended January 1, 2011 under the share repurchase program authorized by our Board of Directors in February 2010.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
October 3 – November 2	-	-	-	-
November 3 – December 2	-	-	-	-
December 3 – January 1	20,432	$4.50	20,432	$7,294,056
Total	20,432	$4.50	20,432	$7,294,056

ITEM 6. SELECTED FINANCIAL DATA

Not required.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

After normalizing for the July 6, 2009 acquisition of the operating assets of Project Solutions Group, Inc. ("PSG"), the Company experienced a decrease in revenues during the fiscal year ended January 1, 2011 as compared to the comparable prior year period. The revenue decrease was primarily attributable to subpar performance in the Company's Information Technology segment offset by gains in its Engineering segment. While the Company believes general economic conditions and overall market conditions for its Information Technology and Specialty Health Care segments improved through fiscal 2010, the Company is cautious regarding expectations for fiscal 2011 as the Company believes that any general economic or market recovery may be slow and/or tenuous.

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

The Company believes that most companies recognize the importance of advanced technologies and business processes to compete in today's business climate. However, the process of designing, developing and implementing business and technology solutions is becoming increasingly complex. The Company believes that many businesses today are focused on return on investment analysis in prioritizing their initiatives, and that this has had an adverse impact on spending by current and prospective clients of the Company 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 7. 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, 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.

On June 3, 2010, the Company announced that its Board of Directors met with respect to an unsolicited proposal by CDI Corp. to acquire all of the outstanding shares of the Company’s common stock for $5.20 per share, and determined that it would not be in the best interest of the Company to pursue the transaction as structured by CDI Corp.

Critical Accounting Policies

The Company’s consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), 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 and recorded at the time certain milestones are reached, as defined in the contract. In other instances, revenue is billed and recorded based upon contractual rates per hour (i.e., percentage of completion). In addition, some contracts contain “Performance Fees” (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when the Company is reasonably certain of collection. Some contracts also limit revenues and billings to maximum amounts. Provision for contract losses, if any, are made in the period such losses are determined. For contracts where there is a deliverable, if the work is not complete on a specific deliverable and the revenue is not recognized, the costs are deferred. The associated costs are expensed when the related revenue is recognized.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Revenue Recognition (Continued)

Consulting and Staffing Services - Revenues derived from consulting and staffing services are recorded on a gross basis as services are performed and associated costs have been incurred using employees of the Company. In these circumstances, the Company assumes the risk of acceptability of its employees to its customers. In certain cases, the Company may utilize other companies and their employees to fulfill customer requirements. In these cases, the Company receives an administrative fee for arranging for, billing for, and collecting the billings related to these companies. The customer is typically responsible for assessing the work of these companies who have responsibility for acceptability of their personnel to the customer. Under these circumstances, the Company’s reported revenues are net of associated costs (effectively recognizing the net administrative fee only).

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

Accounts Receivable

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

The Company’s allowance for doubtful accounts increased by approximately $0.1 million to $1.3 million as of January 1, 2011 from $1.2 million as of January 2, 2010.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company conducts its annual goodwill and intangible asset impairment test as of the Saturday closest to November 30 each year, or more frequently if indicators of impairment exist. We periodically analyze whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in share price and market capitalization, a decline in expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower expected growth rates, among others. Further, if there is an indicator of an impairment, the Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill and intangible assets. Application of the goodwill and intangible asset impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill and intangible asset impairment for each reporting unit. 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. We look to earnings/revenue multiples of similar companies recently completing acquisitions and the ability of our reporting units to generate cash flows as better measures of the fair value of our reporting units, and under such calculations the fair value exceeded the recorded goodwill by at least 25% for each of the reporting units. There can be no assurance that future tests of goodwill and intangible asset impairment will not result in impairment charges.

Long-Lived and Intangible Assets

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

Accounting for Stock Options

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

The Company measures stock-based compensation cost using the Black-Scholes option pricing model.

Insurance Liabilities

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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Accounting for Income Taxes

In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance and estimates of future earnings. As of January 1, 2011, the Company had net short term deferred tax assets of $0.8 million and total long term net deferred income tax assets of $3.3 million. The short term deferred tax assets primarily represent timing differences for GAAP expense accruals not deductible for tax purposes. The long term deferred tax assets represent the tax effect of temporary differences for the GAAP versus tax amortization of acquisitions made in the current and prior periods. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

The Company conducts its operations in multiple tax jurisdictions in the United States, Canada, Ireland and Puerto Rico. The Company and its subsidiaries file a consolidated U.S. Federal income tax return and file in various states. The Company’s federal income tax returns have been examined through 2007. With limited exceptions, the Company is no longer subject to audits by state and local tax authorities for tax years prior to 2007. As of January 1, 2011, the Company did not have any material uncertain tax positions.

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

Accrued Bonuses

The Company pays bonuses to certain executive management, field management and corporate employees based on, or after giving consideration to, a variety of financial performance measures. Executive management, field management and certain corporate employees’ bonuses are accrued throughout the year for payment during the first quarter of the following year, based in part upon anticipated annual results compared to annual budgets. In addition, the Company pays discretionary bonuses to certain employees, which are not related to budget performance. Variances in actual results versus budgeted amounts can have a significant impact on the calculations and therefore on the estimates of the required accruals. Accordingly, the actual earned bonuses may be materially different from the estimates used to determine the quarterly accruals.

Forward-looking Information

The Company’s growth prospects are influenced by broad economic trends. The pace of customer capital spending programs, new product launches and similar activities have a direct impact on the need for information technology and engineering services. When the U.S. and Canadian 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.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS (CONTINUED)

Forward-looking Information (Continued)

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 RCM's future earnings. There can be no assurance that RCM 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. RCM 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. RCM expects that the level of competition will remain high in the future, which could limit RCM's ability to maintain or increase its market share or profitability.

Results of Operations (In thousands, except for earnings per share data)

	Fiscal Years Ended			
	January 1, 2011		January 2, 2010	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	$162,022	100.0	$171,731	100.0
Cost of services	115,835	71.5	127,173	74.0
Gross profit	46,187	28.5	44,558	26.0
Selling, general and administrative	35,825	22.1	40,509	23.6
Depreciation and amortization	1,341	0.8	1,503	0.9
	37,166	22.9	42,012	24.5
Operating income from continuing operations	9,021	5.6	2,546	1.5
Other (expense) income, net	(34)	0.0	9,780	5.7
Income from continuing operations before income taxes	8,987	5.6	12,326	7.2
Income tax expense from continuing operations	2,570	1.6	4,609	2.7
Income from continuing operations	6,417	4.0	7,717	4.5
Loss from discontinued operations, net of tax benefit	(622)	(0.4)	(795)	(0.5)
Net income	$5,795	3.6	$6,922	4.0

The above summary is not a presentation of results of operations under generally accepted accounting principles in the United States of America and should not be considered in isolation or as an alternative to results of operations as an indication of the Company's performance.

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal year ended January 1, 2011 had fifty-two weeks and the fiscal year ended January 2, 2010 had fifty-three weeks.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Fiscal Year Ended January 1, 2011 Compared to Fiscal Year Ended January 2, 2010

Revenues. Revenues decreased 5.6%, or $9.7 million, for the fiscal year ended January 1, 2011 as compared to the prior year (the "comparable prior year period"). Revenues decreased $12.4 million in the Information Technology segment, increased $2.3 million in the Engineering segment, and increased $0.3 million in the Specialty Health Care segment. The Company typically experiences seasonality in revenues during months that contain holidays and increased vacation time as billable personnel are not available to bill time to customers. See Segment Discussion for further information on revenue changes.

Cost of Services. Cost of services decreased 8.9%, or $11.4 million, for the fiscal year ended January 1, 2011 as compared to the comparable prior year period. Cost of services as a percentage of revenues decreased to 71.5% for the fiscal year ended January 1, 2011 from 74.0% for the comparable prior year period. The decrease in cost of services both in dollars and as a percentage of revenues is primarily due to favorable fixed priced contracts in our Engineering segment, decreased unbilled labor costs as compared to total labor costs for consultants (i.e., an increase in utilization of billable personnel) in our Information Technology segment and a general focus on selling and delivering higher gross margin services.

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses decreased 11.6%, or $4.7 million, for the fiscal year ended January 1, 2011 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 22.1% for the fiscal year ended January 1, 2011 as compared to 23.6% for the comparable prior year period. The decrease in SGA expenses both in dollars and as a percentage of revenues is primarily due to a concerted effort by the Company to reduce SGA expenses. The primary components of the reduction include labor and related expenses, bad debt and professional fees.

Depreciation and Amortization. Depreciation and amortization was $1.3 million for the fiscal year ended January 1, 2011 and $1.5 million for the comparable prior year period.

Other Income, Net. Other income, net consists of interest expense, unused credit line fees and amortized loan costs on the Company's loan agreement, net of interest income, gains and losses on foreign currency transactions. Additionally, in the comparable prior year period, $9.8 million in proceeds was received from a legal settlement.

Income Tax Expense From Continuing Operations. The Company experienced income tax expense on income from continuing operations of $2.6 million for the fiscal year ended January 1, 2011 as compared to $4.6 million for the comparable prior year period. Due to a permanent tax difference associated with the disposition of the Oracle business unit further described in Note 15 and the related goodwill and intangible asset tax deduction, the Company recognized an income tax benefit of $1.6 million in the fiscal year ended January 1, 2011. A permanent tax difference was recognized in the fiscal year ended January 1, 2011 because the Company recognized an impairment of the same goodwill and intangible assets associated with the Oracle business unit for book purposes in fiscal 2008.

The effective tax rate for income from continuing operations was 28.6% for the fiscal year ended January 1, 2011 as compared to 37.4% in the comparable prior year period. The current period effective tax rate in the United States was 26.3% as compared to 41.2 % in the comparable prior year period. The primary reason for the decrease in the effective rate in the United States was due to the discrete nature of the goodwill and intangible asset tax deduction offset by an increase in state taxes. The current period effective tax rate in Canada was 28.3% as compared to 27.6% in the comparable prior year period. The Company also experienced an approximate loss of $0.5 million in Ireland whereby the net effect of a full valuation allowance yielded no tax benefit and increased the Company’s consolidated effective tax rate.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Fiscal Year Ended January 1, 2011 Compared to Fiscal Year Ended January 2, 2010 (Continued)

Discontinued Operations. See Note 15 to the Consolidated Financial Statements included in this report for a description of discontinued operations. The Company experienced a loss from discontinued operations, net of tax benefit of $0.6 million for the fiscal year ended January 1, 2011 as compared to $0.8 million in the comparable prior year period. The current period was offset by a $0.1 million gain on sale of discontinued operations, net of tax expense. The Company experienced a loss from discontinued operations before tax benefit of $1.2 million in both the fiscal year ended January 1, 2011 and the comparable prior year period.

Segment Discussion (See Footnote 14)

Information Technology

Information Technology revenues of $71.6 million in the fiscal year ended January 1, 2011 decreased $12.4 million, or 14.8%, as compared to the comparable prior year period. The decrease in revenue was primarily attributable to a continued weakening of the general economy, a $5.4 million decrease in the Company’s Michigan offices, revenue decreases from the Company’s Life Sciences clients including a $2.0 million decrease in revenues from two major pharmaceutical clients that were merged in 2009 and a concentrated effort by the Company to shift to higher gross margin revenues, partially offset by revenues attributable to the PSG acquisition. Revenues for the PSG acquisition were $2.9 million for the fiscal year ended January 1, 2011 as compared to $2.2 million in the comparable prior year period. The Information Technology segment operating income was $1.6 million for the fiscal year ended January 1, 2011 as compared to an operating loss of $1.3 million in the comparable prior year period. The improvement in operating income is primarily attributable to decreased cost of sales as a percentage of revenues and decreased SGA expenses. The decrease in cost of sales as a percentage of revenues is primarily due to the Company’s concentrated effort to deliver higher margin services.

Engineering

Engineering revenues of $64.5 million in the fiscal year ended January 1, 2011 increased $2.3 million, or 3.8%, as compared to the comparable prior year period. The increase in revenue is attributable to increases in revenues from several major customers in the Company’s Power Systems Group that are operating at increased levels of spending as compared to the comparable prior year period. The Engineering segment operating income was $5.5 million for the fiscal year ended January 1, 2011 as compared to $2.3 million for the comparable prior year period. The increase in operating income was primarily due to increased revenues and lower cost of services as a percentage of revenues as compared to the comparable prior year period. The decrease in cost of sales as a percentage of revenues is primarily due to the Company’s concentrated effort to deliver higher margin services.

Specialty Health Care

Specialty Health Care revenues of $25.9 million in the fiscal year ended January 1, 2011 increased $0.3 million, or 1.4%, as compared to the comparable prior year period. The Specialty Health Care segment had operating income of $2.0 million for the fiscal year ended January 1, 2011 as compared to $1.6 million for the comparable prior year period. The increase in operating income was primarily due to decreases to SGA expenses.

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ITEM 7. 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):

	Fiscal Years Ended	
	January 1, 2011	January 2, 2010
Cash provided by (used in):		
Operating Activities	$13,340	$16,391
Investing Activities	$329	($1,650)
Financing Activities	$45	($4,817)

Operating Activities

Operating activities provided $13.3 million of cash for the fiscal year ended January 1, 2011 as compared to $16.4 million in the comparable prior year period. The major components of the cash provided by operating activities in the fiscal year ended January 1, 2011 and the comparable prior year period are as follows: net income, accounts receivables, prepaid expenses and other current assets, accounts payable and accrued expenses and accrued payroll and related costs.

Net income for the fiscal year ended January 1, 2011 was $5.8 million as compared to $6.9 million for the comparable prior year period. The largest driver of the cash provided by operating activities in the comparable prior year period was a one-time $9.8 million legal settlement ($5.8 million after tax effect). Before considering the legal settlement and other income during comparable prior year period, there was operating income from continuing operations of $2.5 million ($1.6 million after tax effect). During the fiscal year ended January 1, 2011, there was operating income from continuing operations of $9.0 million ($6.4 million after tax effect). Net income in the fiscal year ended January 1, 2011 included a $1.6 million tax benefit recognized from an anticipated tax deduction associated with the liquidation of a subsidiary (see Notes 15 and 16 to the Consolidated Financial Statements included in this report).

A decrease in accounts receivables in the fiscal year ended January 1, 2011 provided $5.3 million as compared to providing $10.2 million in the comparable prior year period. The Company believes the decrease in accounts receivables from January 2, 2010 is due to lower revenues and the Company’s focus on improving collection rates on accounts receivables. Prepaid expenses and other current assets provided $0.8 million during the year ended January 1, 2011 as compared to $0.6 million in the comparable prior year period. The primary reasons for the decrease in prepaid expenses and other assets are a decrease in revenues and lower working capital needs associated with discontinued operations.

A decrease in accounts payable and accrued expenses in the fiscal year ended January 1, 2011 used $1.3 million as compared to using $1.1 million in the comparable prior year period. The Company attributes these changes to general timing of payments to vendors in the normal course of business and liabilities associated with discontinued operations. An increase to accrued payroll and related costs in the fiscal year ended January 1, 2011 provided $0.3 million as compared to using $3.4 million in the comparable prior year period. The increase in accrued payroll and related costs during the fiscal year ended January 1, 2011 primarily relates to timing of payroll offset by fewer employees on the payroll as compared to the end of the comparable prior year period.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Liquidity and Capital Resources (Continued)

Investing Activities

Investing activities provided cash of $0.3 million for the fiscal year ended January 1, 2011 as compared to a use of $1.7 million for the comparable prior year period. The decrease in cash used from investing activities for fiscal 2010 as compared to the comparable prior year period was primarily attributable to significantly decreased expenditures for property and equipment and no acquisition activity in the current period. Additionally, the Company sold its Intertec division and received $0.4 million in cash (see Note 15). The Company anticipates implementing an upgraded ERP system sometime in 2011 and will see a significant rise in expenditures for property and equipment as a result.

Financing Activities

In the fiscal year ended January 1, 2011, financing activities consisted of providing $0.1 million from the sale of stock through the Company's employee stock purchase plan and $0.1 million from the exercise of stock options which was offset by a use of $0.2 million for the purchase of treasury stock. In the fiscal year ended January 2, 2010, financing activities primarily consisted of reducing debt by $4.9 million.

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, amended and restated effective February 20, 2009, which provides for a $15 million revolving credit facility and includes a sub-limit of $5.0 million for letters of credit (the "Revolving Credit Facility"). Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, or (ii) the agent bank's prime rate. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as restrictions on the Company's ability to pay dividends. The Revolving Credit Facility expires in August 2011. We intend to seek to extend or replace the Revolving Credit Facility prior to such time if we determine that doing so would be in alignment with our financing needs.

There were no borrowings during the fiscal year ended January 1, 2011. During the fiscal year ended January 2, 2010, the Company's outstanding borrowings ranged from $-0- million to $4.9 million. The majority of borrowings in fiscal year ended January 2, 2010 were subject to LIBOR plus applicable margin on contracts of 30 days or more. At January 1, 2011 and January 2, 2010, there were letters of credit outstanding for $0.9 million and $1.6 million, respectively. At January 1, 2011, the Company had availability for additional borrowings under the Revolving Credit Facility of $14.1 million.

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

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

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

Liquidity and Capital Resources (Continued)

Financing Activities (Continued)

The Company does not currently have material commitments for capital expenditures. However, the Company anticipates that it will begin to upgrade its current ERP system sometime in 2011. The Company does not currently anticipate entering into any other significant capital commitments during the next 12 months. The Company's current commitments consist primarily of lease obligations for office space. The Company believes that its capital resources are sufficient to meet its present obligations and those to be incurred in the normal course of business for at least the next 12 months.

The Company leases office facilities and various equipment under non-cancelable leases expiring at various dates through September 2015. Certain leases are subject to escalation clauses based upon changes in various factors. The minimum future annual operating lease commitments for leases with non-cancelable terms, exclusive of unknown operating escalation charges, are as follows (in thousands):

Fiscal Years	Amount
2011	$3,534
2012	2,320
2013	853
2014	159
2015	96
Total	$6,962

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

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

Year Ending	Amount
December 31, 2011	$944
December 29, 2012	164
December 28, 2013	184
	$1,292

Maximum
deferred
consideration

The Company cannot estimate future Deferred Consideration payments with any certainty. However, the Company does not believe that the Deferred Consideration earned and payable in the fiscal year ending December 31, 2011 will exceed $144. Earnouts, if any, cannot be estimated with any certainty and as such are not included above. Earnouts paid, if any, are not likely to be material.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Liquidity and Capital Resources (Continued)

Financing Activities (Continued)

Significant employment agreements are as follows:

Employment Agreement
The Company has an employment agreement with its Chief Executive Officer and President, Leon Kopyt, which currently provides for an annual base salary of $0.7 million and other customary benefits. In addition, the agreement provides that Mr. Kopyt’s annual bonus be based on EBITDA, defined as earnings before interest, taxes, depreciation and amortization. The agreement is for a rolling term of three years, which automatically extends each year for an additional one-year period on February 28 of each year. The agreement expires on February 28, 2014. The employment agreement is terminable by the Company upon Mr. Kopyt’s death or disability, or for “good and sufficient cause,” as defined in the agreement.

Termination Benefits Agreement
The Company is party to a Termination Benefits Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (the “Benefits Agreement”). Pursuant to the Benefits Agreement, following a Change in Control (as defined therein), the remaining term of Mr. Kopyt's employment is extended for five years (the “Extended Term”). If Mr. Kopyt's employment is terminated thereafter by the Company other than for cause, or by Mr. Kopyt for good reason (including, among other things, a material change in Mr. Kopyt's salary, title, reporting responsibilities or a change in office location which requires Mr. Kopyt to relocate), then the following provisions take effect: the Company is obligated to pay Mr. Kopyt a lump sum equal to his salary and bonus for the remainder of the Extended Term; and the Company shall be obligated to pay to Mr. Kopyt the amount of any excise tax associated with the benefits provided to Mr. Kopyt under the Benefits Agreement. If such a termination had taken place as of January 1, 2011, Mr. Kopyt would have been entitled to cash payments of approximately $5.9 million (representing salary and excise tax payments).

Severance Agreement
The Company is party to a Severance Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (the “Severance Agreement”). The agreement provides for certain payments to be made to Mr. Kopyt and for the continuation of Mr. Kopyt’s employee benefits for a specified time after his service with the Company is terminated other than “for cause,” as defined in the Severance Agreement. Amounts payable to Mr. Kopyt under the Severance Agreement would be offset and reduced by any amounts received by Mr. Kopyt after his termination of employment under his employment agreement and the Benefits Agreement, which are supplemented and not superseded by the Severance Agreement. If Mr. Kopyt had been terminated as of January 1, 2011, then under the terms of the Severance Agreement, and after offsetting any amounts that would have been received under his current employment and termination benefits agreements, he would have been entitled to cash payments of approximately $4.0 million, inclusive of employee benefits.

Impact of Inflation

Consulting, staffing, and project services are generally priced based on mark-ups on prevailing rates of pay, and as a result are able to generally maintain their relationship to direct labor costs. Permanent placement services are priced as a function of salary levels of the job candidates.

The Company's business is labor intensive; therefore, the Company has a high exposure to increasing healthcare benefit costs. The Company attempts to compensate for these escalating costs in its business cost models and customer pricing by passing along some of these increased healthcare benefit costs to its customers and employees, however, the Company has not been able to pass on all increases. The Company is continuing to review its options to further control these costs, which the Company does not believe are representative of general inflationary trends. Otherwise, inflation has not been a meaningful factor in the Company's operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

New Accounting Standards

In April 2010, the FASB issued ASU No. 2010-17, Topic 605 – Revenue Recognition – Milestone Method ("USA 2010-17"), which provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. The amendments in ASU 2010-17 are effective on a prospective basis for milestones achieved in fiscal years beginning on or after June 15, 2010, and interim periods within those years. Early adoption is permitted; however, if a Company elects to early adopt, the amendment must be applied retrospectively from the beginning of the year of adoption. The Company has adopted ASU 2010-17 effective as of the beginning of the fiscal year ended January 1, 2011 but due to nonactivity of any applicable transactions, it did not impact its consolidated results of operations.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of its Revolving Credit Facility. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of January 1, 2011, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Presently the impact of a 10% (approximately 90 basis points) increase in interest rates on its variable debt (using an incremental borrowing rate) would have a relatively nominal impact on the Company's results of operations. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements, together with the report of the Company's Registered Public Accounting Firm, begins on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A(T). CONTROLS AND PROCEDURES

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

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

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. Internal control over financial reporting is a process designed 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. Our system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of January 1, 2011 based upon criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management determined that the company's internal control over financial reporting was effective as of January 1, 2011, based on the criteria in Internal Control-Integrated Framework issued by COSO.

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.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 shall be included in the 2011 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 shall be included in the 2011 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except as set forth below, the information required by Item 12 shall be included in the 2011 Proxy Statement.

The table below presents certain information concerning securities issuable in connection with equity compensation plans that have been approved by the Company's shareholders and that have not been approved by the Company's shareholders.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for issuance under equity compensation plans, excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	1,101,594	$4.57	415,600
Equity compensation plans not approved by security holders			
Total	1,101,594	$4.57	415,600

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 shall be included in the 2011 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 shall be included in the 2011 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. and 2. Financial Statement Schedules -- See "Index to Financial Statements and Schedules" on F-1.

3. See Item (b) below.

(b) Exhibits

(3)(a)	Articles of Incorporation, as amended; incorporated by reference to Exhibit 3(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1994.
(3)(b)	Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit A to the Registrant's Proxy Statement, dated February 6, 1996, filed with the Securities and Exchange Commission on January 29, 1996.
(3)(c)	Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit B to the Registrant's Proxy Statement, dated February 6, 1996, filed with the Securities and Exchange Commission on January 29, 1996.
(3)(d)	Amended and Restated Bylaws; incorporated by reference to Exhibit 3(d) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 2, 2010.
(3)(e)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, dated June 9, 2010 (filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 9, 2010, and incorporated herein by reference).
(4)(a)	Registration Rights Agreement, dated March 11, 1996, by and between RCM Technologies, Inc. and the former shareholders of The Consortium; incorporated by reference to Exhibit (c)(2) to the Registrant's Current Report on Form 8-K dated March 19, 1996, filed with the Securities and Exchange Commission on March 20, 1996.
(4)(b)	Rights Agreement, dated as of June 9, 2010, between the Registrant and American Stock Transfer & Trust Company, as Rights Agent (filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 9, 2010, and incorporated herein by reference).
*(10)(a)	

	RCM Technologies, Inc. 1992 Incentive Stock Option Plan; incorporated by reference to Exhibit A to the Registrant's Proxy Statement, dated March 9, 1992, filed with the Securities and Exchange Commission on March 9, 1992.
(10)(b)	RCM Technologies, Inc. 1994 Non-employee Director Stock Option Plan; incorporated by reference to the appendix to the Registrant's Proxy Statement, dated March 31, 1994, filed with the Securities and Exchange Commission on March 28, 1994.
*(10)(c)	RCM Technologies, Inc. 1996 Executive Stock Option Plan, dated August 15, 1996; incorporated by reference to Exhibit 10(l) to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1996, filed with the Securities and Exchange Commission on January 21, 1997 (the "1996 10-K").
*(10)(d)	RCM Technologies, Inc. 2000 Employee Stock Incentive Plan, dated January 6, 2000; incorporated by reference to Exhibit A to the Registrant's Proxy Statement, dated March 3, 2000, filed with the Securities and Exchange Commission on February 28, 2000.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (CONTINUED)

(b) Exhibits (Continued)

*(10)(e)	Second Amended and Restated Termination Benefits Agreement, dated March 18, 1997, between the Registrant and Leon Kopyt; incorporated by reference to Exhibit 10(g) to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-23753), filed with the Securities and Exchange Commission on March 21, 1997.
*(10)(f)	Amended and Restated Employment Agreement, dated November 30, 1996, between the Registrant, Intertec Design, Inc. and Leon Kopyt; incorporated by reference to Exhibit 10(g) to the 1996 10-K.
(10)(g)	Amended and Restated Loan and Security Agreement, dated May 31, 2002, between RCM Technologies, Inc. and all of its Subsidiaries with Citizens Bank of Pennsylvania, as Administrative Agent and Arranger; incorporated by reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the Securities and Exchange Commission on August 5, 2002 (the "Second Quarter 2002 10-Q").
*(10)(h)	Severance Agreement, dated June 10, 2002, between RCM Technologies, Inc. and Leon Kopyt; incorporated by reference to Exhibit 10a to the Second Quarter 2002 10-Q.
*(10)(i)	Exhibit A to Severance Agreement General Release; incorporated by reference to Exhibit 10b to the Second Quarter 2002 10-Q.
(10)(j)	Amendment and Modification to Amended and Restated Loan and Security Agreement, dated December 30, 2002, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 10(k) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed with the Securities and Exchange Commission on February 28, 2003, as amended on March 3, 2003 (the "2002 10-K").
(10)(k)	Second Amendment and Modification to Amended and Restated Loan and Security Agreement, dated February 26, 2003, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 10(l) to 2002 10-K).

(10)(l)	Third Amendment and Modification to Amended and Restated Loan and Security Agreement, dated October 1, 2003, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 99.H to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the Securities and Exchange Commission on November 6, 2003.
(10)(m)	Fourth Amendment and Modification to Amended and Restated Loan and Security Agreement, dated July 23, 2004, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004, filed with the Securities and Exchange Commission on August 5, 2004.
(10)(n)	Fifth Amendment and Modification to Amended and Restated Loan and Security Agreement dated August 7, 2006, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2006, filed with the Securities and Exchange Commission on August 10, 2006.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (CONTINUED)

(b) Exhibits (Continued)

*(10)(o)	Amendment No. 1, dated December 12, 2007, to the Amended and Restated Employment Agreement, entered into on November 30, 1996, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K dated December 12, 2007, filed with the Securities and Exchange Commission on December 12, 2007 (the “December 2007 8-K”).
*(10)(p)	Amendment No. 1, dated December 12, 2007, to the Second Amended and Restated Termination Benefits Agreement, made March 18, 1997, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.2 to the December 2007 8-K.
*(10)(q)	Amendment No. 1, dated December 12, 2007, to the Severance Agreement, entered into on June 12, 2002, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.3 to the December 2007 8-K.
*(10)(t)	The RCM Technologies, Inc. 2007 Omnibus Equity Compensation Plan; incorporated by reference to Annex A to the Registrant’s Proxy Statement, dated April 20, 2007, filed with the Securities and Exchange Commission on April 19, 2007.
*(10)(u)	Separation and Release Agreement, dated August 27, 2008; incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated August 21, 2008, filed with the Securities and Exchange Commission on August 27, 2008.
(10)(v)	Second Amended and Restated Loan and Security Agreement dated as of February 19, 2009, between RCM Technologies, Inc. and all of its Subsidiaries, Citizens Bank of Pennsylvania as Administrative Agent and Arranger and the Financial Institutions Named therein as Lenders; incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated February 19, 2009, filed with the Securities and Exchange Commission on February 25, 2009.
*(10)(w)	Option Grant Agreement, dated April 21, 2010, to Richard D. Machon (filed as an exhibit to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 23, 2010, and incorporated herein by reference).
*(10)(x)	Option Grant Agreement, dated April 21, 2010, to S. Gary Snodgrass (filed as an exhibit to the Registrant’s Current Report

	on Form 8-K filed with the Securities and Exchange Commission on April 23, 2010, and incorporated herein by reference).
(21)	Subsidiaries of the Registrant. (Filed herewith)
(23.1)	Consent of EisnerAmper LLP. (Filed herewith)
(23.2)	Consent of Amper, Politziner & Mattia, LLP. (Filed herewith)
(31.1)	Certifications of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. (Filed herewith)
(31.2)	Certifications of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. (Filed herewith)

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (CONTINUED)

(b) Exhibits (Continued)

(32.1)	Certifications of Chief Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Filed herewith)
(32.2)	Certifications 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.) (Filed herewith)

*Constitutes a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 22, 2011	By:/s/ Leon Kopyt Leon Kopyt Chairman, President, Chief Executive Officer and Director
Date: February 22, 2011	By:/s/ Kevin D. Miller Kevin D. Miller Chief Financial Officer, Treasurer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: February 22, 2011	By:/s/ Leon Kopyt Leon Kopyt Chairman, President, Chief Executive Officer (Principal Executive Officer) and Director
Date: February 22, 2011	By:/s/ Kevin D. Miller Kevin D. Miller Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)
Date: February 22, 2011	By:/s/ Norman S. Berson Norman S. Berson Director
Date: February 22, 2011	By:/s/ Robert B. Kerr Robert B. Kerr Director

Date: February 22, 2011	By:/s/ Richard D. Machon Richard D. Machon Director
Date: February 22, 2011	By:/s/ Lawrence Needleman Lawrence Needleman Director
Date: February 22, 2011	By:/s/ S. Gary Snodgrass S. Gary Snodgrass Director

RCM TECHNOLOGIES, INC.

FORM 10-K

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
January 1, 2011 and January 2, 2010
(Dollars in thousands, except share and per share amounts, unless otherwise indicated)

	January 1, 2011	January 2, 2010
Current assets:		
Cash and cash equivalents	$24,704	$10,942
Accounts receivable, net	41,213	44,231
Prepaid expenses and other current assets	1,841	2,629
Deferred income tax assets	827	705
Assets of discontinued operations	2	2,534
Total current assets	68,587	61,041
Property and equipment, net	3,295	4,533
Other assets:		
Deposits	183	184
Goodwill	7,319	7,319
Intangible assets, net	325	464
Deferred income tax assets	3,303	3,828
Total other assets	11,130	11,795
Total assets	$83,012	$77,369
Current liabilities:		
Accounts payable and accrued expenses	$6,004	$6,934
Accrued payroll and related costs	6,950	6,340
Income taxes payable	39	-
Liabilities of discontinued operations	45	426
Contingent consideration	121	-
Total current liabilities	13,159	13,700
Contingent consideration	245	366
Stockholders' equity:		
Preferred stock, $1.00 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, $0.05 par value; 40,000,000 shares authorized; 13,220,445 shares issued and 13,171,048 shares outstanding at January 1, 2011 and 12,960,778 shares issued and outstanding at January 2, 2010	661	648
Additional paid-in capital	107,817	107,262
Accumulated other comprehensive income	1,415	1,267

Accumulated deficit	(40,079)	(45,874)
Treasury stock (49,397 shares, at cost)	(206)	-
Stockholders' equity	69,608	63,303
Total liabilities and stockholders' equity	$83,012	$77,369

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Fiscal Years Ended January 1, 2011 and January 2, 2010
(Dollars in thousands, except per share amounts, unless otherwise indicated)

		January 1, 2011	January 2, 2010
Revenues		$162,022	$171,731
Cost of services		115,835	127,173
Gross profit		46,187	44,558
Operating costs and expenses			
	Selling, general and administrative	35,825	40,509
	Depreciation and amortization	1,341	1,503
	Operating cost and expenses	37,166	42,012
Operating income		9,021	2,546
Other (expense) income			
	Interest expense and other, net	(61)	(55)
	Gain on foreign currency transactions	27	85
	Legal settlement	-	9,750
Other (expense) income		(34)	9,780
Income from continuing operations before income taxes		8,987	12,326
Income tax expense from continuing operations		2,570	4,609
Income from continuing operations		6,417	7,717
Loss from discontinued operations, net of tax benefit		(622)	(795)
Net income		$5,795	$6,922
Basic and diluted net earnings (loss) per share data:			
	Income from continuing operations	$0.49	$0.60
	Loss from discontinued operations, net of tax benefit	($0.05)	($0.06)
	Net income	$0.44	$0.54

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Fiscal Years Ended January 1, 2011 and January 2, 2010
(Dollars in thousands, except share amounts, unless otherwise indicated)

	Common Stock		Additional	Accumulated Other		Treasury Stock		
	Issued Shares	Amount	Paid-in Capital	Comprehensive Income	Accumulated Deficit	Shares	Amount	Total
Balance, December 27, 2008	12,774,026	$639	$106,788	$720	($52,796)	-	$ -	$55,351
Issuance of stock under employee stock purchase plan	86,752	4	79	-	-	-	-	83
Translation adjustment	-	-	-	547	-	-	-	547
Stock based compensation expense	-	-	181	-	-	-	-	181
Shares issued for acquired companies	100,000	5	214	-	-	-	-	219
Net loss	-	-	-	-	6,922	-	-	6,922
Balance, January 2, 2010	12,960,778	$648	$107,262	$1,267	($45,874)	-	$ -	$63,303
Issuance of stock under employee stock purchase plan	74,172	4	145	-	-	-	-	149
Translation adjustment	-	-	-	148	-	-	-	148
Issuance of stock under stock option plans	185,495	9	93	-	-	-	-	102
Stock based compensation expense	-	-	317	-	-	-	-	317
Common stock repurchase	-	-	-	-	-	49,397	(206)	(206)

Net income	-	-	-	-	5,795	-	-	5,795
Balance, January 1, 2011	13,220,445	$661	$107,817	$1,415	($40,079)	49,397	($206)	$69,608

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Fiscal Years Ended January 1, 2011 and January 2, 2010

	January 1, 2011	January 2, 2010
Net income	$5,795	$6,922
Foreign currency translation adjustment	148	547
Comprehensive income	$5,943	$7,469

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal Years Ended January 1, 2011 and January 2, 2010
(Dollars in thousands unless otherwise indicated)

	January 1, 2011	January 2, 2010
Cash flows from operating activities:		
Net income	$5,795	$6,922
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,383	1,625
Loss on disposal of fixed assets of discontinued operations	269	88
Gain on sale of discontinued operations	(143)	-
Stock-based compensation expense	317	181
Provision for losses on accounts receivable	93	115
Deferred income tax expense	403	2,047
Changes in assets and liabilities:		
Accounts receivable	5,250	10,173
Prepaid expenses and other current assets	782	643
Accounts payable and accrued expenses	(1,255)	(1,142)
Accrued payroll and related costs	308	(3,386)
Income taxes payable	138	(875)
Total adjustments	7,545	9,469
Net cash provided by operating activities	13,340	16,391
Cash flows from investing activities:		
Property and equipment acquired	(101)	(802)
Decrease in deposits	30	52
Cash from sale of discontinued operations	400	-
Cash paid for acquisitions, net of working capital	-	(900)
Net cash provided by (used in) investing activities	329	(1,650)
Cash flows from financing activities:		
Sale of stock for employee stock purchase plan	149	83
Exercise of stock options	102	-
Common stock repurchases	(206)	-
Net repayments on line of credit	-	(4,900)
Net cash provided by (used in) financing activities	45	(4,817)
Effect of exchange rate changes on cash and cash equivalents	48	203
Increase in cash and cash equivalents	13,762	10,127
Cash and cash equivalents at beginning of period	10,942	815
Cash and cash equivalents at end of period	$24,704	$10,942
Supplemental cash flow information:		

Cash paid for:		
Interest	$74	$67
Income taxes	$1,669	$2,510

Non-cash investing activities relating to acquisition purchase price adjustment:

Decrease goodwill	$840	$ -
Decrease accounts payable and accrued expenses	$313	$ -
Decrease contingent consideration	$527	$ -

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Years Ended January 1, 2011 and January 2, 2010
(Dollars in thousands, except share and per share amounts, unless otherwise indicated)

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

RCM Technologies, Inc. (the “Company” or “RCM”) is a premier provider of business and technology solutions designed to enhance and maximize the operational performance of its customers through the adaptation and deployment of advanced information technology and engineering services. Additionally, the Company provides specialty staffing services through its Specialty Health Care Services group. RCM’s offices are located in major metropolitan centers throughout North America.

The consolidated financial statements are comprised of the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications
Certain prior year amounts have been reclassified to conform with current year presentation, see Note 15.

Cash and Cash Equivalents

The Company considers its holdings of highly liquid money-market instruments to be cash equivalents if the securities mature within 90 days from the date of acquisition. These investments are carried at cost, which approximates fair value.

The Company’s cash balances are maintained in accounts held by major banks and financial institutions. The majority of these balances exceed federally insured amounts. At January 1, 2011 and January 2, 2010, $0.8 million and $0.1 million, respectively, of cash and cash equivalents were held in Canadian banks. At January 1, 2011, $0.2 million of cash and cash equivalents were held in Irish banks.

Fair Value of Financial Instruments

The Company’s carrying value of financial instruments, consisting primarily of accounts receivable, approximates fair value. The Company does not have any off-balance sheet financial instruments. The Company does not have derivative products in place to manage risks related to foreign currency fluctuations for its foreign operations or for interest rate changes.

Accounts Receivable and Allowance for Doubtful Accounts

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, and payments subsequently received on such receivables previously written off are credited to bad debt expense.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Years Ended January 1, 2011 and January 2, 2010
(Dollars in thousands, except share and per share amounts, unless otherwise indicated)

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued and Unbilled Accounts Receivable and Work-in-Process

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 is contractually precluded from invoicing until future dates as project milestones are realized. See Footnote 4 for further details.

Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation and amortization 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 Company's ERP software system, installed in 1999 and upgraded in 2004, is being depreciated over fifteen years. The Company's VOIP telephone system, the installation of which was substantially complete at the end of 2008, is being depreciated over seven years. All other hardware and software as well as furniture and office equipment is depreciated over five years. Leasehold improvements are depreciated over the shorter of the estimated life of the asset or the lease term. The Company anticipates that it will begin to upgrade its current ERP system sometime in 2011.

Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company conducts its annual goodwill impairment test as of the Saturday closest to November 30 each year, or more frequently if indicators of impairment exist. The Company periodically analyzes whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in share price and market capitalization, a decline in expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower expected growth rates, among others. Further, if there is an indicator of an impairment, the Company compares the fair value of each of its reporting units to their respective carrying values and if the carrying amount of the goodwill exceeds fair value, an impairment loss is recognized. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company determined there was no impairment during the fiscal years ended January 1, 2011 and January 2, 2010.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Years Ended January 1, 2011 and January 2, 2010
(Dollars in thousands, except share and per share amounts, unless otherwise indicated)

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Lived Assets

The Company accounts for long-lived assets in accordance with "Accounting for the Impairment or Disposal of Long-Lived Assets." Management periodically reviews the carrying amounts of long-lived assets to determine whether current events or circumstances warrant adjustment to such carrying amounts. Any impairment is measured by the amount that the carrying value of such assets exceeds their fair value, primarily based on estimated discounted cash flows. Considerable management judgment is necessary to estimate the fair value of assets. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value, less cost to sell.

Software

In accordance with "Accounting for Costs of Computer Software Developed or Obtained for Internal Use," certain costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software. During the fiscal years ended January 1, 2011 and January 2, 2010, the Company capitalized approximately $16 and $244, respectively, for software costs. At January 1, 2011 the net balance after accumulated depreciation for all software costs capitalized was $348.

Income Taxes

The Company accounts for income taxes in accordance with "Accounting for Income Taxes" which requires an asset and liability approach of accounting for income taxes. "Accounting for Income Taxes" requires assessment of the likelihood of realizing benefits associated with deferred tax assets for purposes of determining whether a valuation allowance is needed for such deferred tax assets. The Company and its wholly owned U.S. subsidiaries file a consolidated federal income tax return.

The Company also follows the provisions of "Accounting for Uncertainty in Income Taxes" which prescribes a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure and transition. At January 1, 2011 the Company did not have any significant unrecognized tax benefits. The Company's policy is to record interest and penalty, if any, as interest expense.

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.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Years Ended January 1, 2011 and January 2, 2010
(Dollars in thousands, except share and per share amounts, unless otherwise indicated)

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Project Services
The Company recognizes revenues in accordance with “Revenue Recognition” which clarifies application of U.S. generally accepted accounting principles to revenue transactions. Project services are generally provided on a cost-plus, fixed-fee or time-and-material basis. Typically, a customer will outsource a discrete project or activity and the Company assumes responsibility for the performance of such project or activity. The Company recognizes revenues and associated costs on a gross basis as services are provided to the customer and costs are incurred using its employees. The Company, from time to time, enters into contracts requiring the completion of specific deliverables. The Company may recognize revenues on these deliverables at the time the client accepts and approves the deliverables. In instances where project services are provided on a fixed-price basis and the contract will extend beyond a 12-month period, revenue is recorded in accordance with the terms of each contract. In some instances, revenue is billed and recorded at the time certain milestones are reached, as defined in the contract. In other instances, revenue is billed and recorded based upon contractual rates per hour (i.e., percentage of completion). In addition, some contracts contain “Performance Fees” (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when the Company is reasonably certain of collection. Some contracts also limit revenues and billings to maximum amounts. Provision for contract losses, if any, are made in the period such losses are determined. For contracts where there is a deliverable, the work is not complete on a specific deliverable and the revenue is not recognized, the costs are deferred. The associated costs are expensed when the related revenue is recognized.

Consulting and Staffing Services
Revenues derived from consulting and staffing services are recorded on a gross basis as services are performed and associated costs have been incurred using employees of the Company. In these circumstances, the Company assumes the risk of acceptability of its employees to its customers.

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

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

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration

During fiscal year ended January 1, 2011, United Technologies Corporation and Bruce Power accounted for 13.3% and 10.8% of the Company's revenues and as of January 1, 2011 represented 22.1% and 7.9% of the Company's accounts receivable, respectively. No other customer accounted for 10% or more of the Company's revenues. The Company's five, ten and twenty largest customers accounted for approximately 36.9%, 44.1% and 54.6%, respectively, of the Company's revenues for fiscal year ended January 1, 2011.

During fiscal year ended January 2, 2010, United Technologies Corporation accounted for 12.7% of the Company's revenues and 22.2% of the Company's accounts receivable. No other customer accounted for 10% or more of the Company's revenues. The Company's five, ten and twenty largest customers accounted for approximately 30.0%, 36.7% and 47.3%, respectively, of the Company's revenues for fiscal year ended January 2, 2010.

Foreign Currency Translation

The functional currency of the Company's Canadian and Ireland subsidiaries is that subsidiary's local currency. Assets and liabilities are translated at period-end exchange rates. Income and expense items are translated at weighted average rates of exchange prevailing during the year. Any translation adjustments are included in the accumulated other comprehensive income account in stockholders' equity. Transactions executed in different currencies resulting in exchange adjustments are translated at spot rates and resulting foreign exchange transaction gains and losses are included in the results of operations.

Comprehensive Income

Comprehensive income consists of net income and foreign currency translation adjustments.

Per Share Data

Basic net income per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted net income per share is calculated using the weighted-average number of common shares plus dilutive potential common shares outstanding during the period. Potential dilutive common shares consist of stock options and other stock-based awards under the Company's stock compensation plans, when their impact is dilutive. Because of the Company's capital structure, all reported earnings pertain to common shareholders and no other adjustments are necessary.

Share - Based Compensation

The Company recognizes share-based compensation over the vesting period of an award based on fair value at the grant date determined using the Black-Scholes option pricing model. Certain assumptions are used to determine the fair value of stock-based payment awards on the date of grant and require subjective judgment. Because employee stock options have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the fair value estimate, the existing models may not provide a reliable single measure of the fair value of the employee stock options. Management assesses the assumptions and methodologies used to calculate estimated fair value of stock-based compensation on a regular basis. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies and thereby materially impact our fair value determination. See Note 11 for additional share-based compensation information.

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1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was $632 and $864 for the fiscal years ended January 1, 2011 and January 2, 2010, respectively.

2. FISCAL YEAR

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal year ended January 2, 2010 (fiscal 2009) was a 53-week reporting year. The fiscal year ended January 1, 2011 (fiscal 2010) was a 52-week reporting year.

3. USE OF ESTIMATES AND UNCERTAINTIES

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

The Company uses estimates to calculate an allowance for doubtful accounts on its accounts receivables. These estimates can be significant to the operating results and financial position of the Company.

The Company has risk participation arrangements with respect to workers compensation and health care insurance. The amounts included in the Company's costs related to this risk participation are estimated and can vary based on changes in assumptions, the Company's claims experience or the providers included in the associated insurance programs.

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

4. ACCOUNTS RECEIVABLE

The Company's accounts receivable are comprised as follows:

	January 1, 2011	January 2, 2010
Billed	$31,265	$35,372
Accrued and unbilled	3,381	2,160
Work-in-progress	7,858	7,887
	(1,291)	(1,188)

Allowance for doubtful accounts and sales discounts		
Accounts receivable, net	$41,213	$44,231

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5. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	January 1, 2011	January 2, 2010
Equipment and furniture	$2,734	$2,929
Computers and systems	5,869	6,596
Leasehold improvements	1,064	1,160
	9,667	10,685
Less: accumulated depreciation and amortization	6,372	6,152
Property and equipment, net	$3,295	$4,533

The Company writes off fully depreciated assets each year. In fiscal years ended January 1, 2011 and January 2, 1010, the write-offs were $975 and $837, respectively. For the fiscal years ended January 1, 2011 and January 2, 1010, depreciation expense was $1,202 and $1,400, respectively.

6. ACQUISITIONS

General

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

Future Contingent Payments

The Company has two active acquisition agreements relating to the acquisitions of the assets of NuSoft and PSG, both as defined below, whereby future contingent consideration may be earned and paid. Prior to December 2007 and the NuSoft acquisition, the Financial Accounting Standards Board ("FASB") issued "Business Combinations" which did not require that the estimated fair value of contingent consideration be recorded as a liability. Pursuant to accounting standards in effect at that time, the Company has not recorded any liability associated with the contingent consideration that may be paid in connection with its March 19, 2008 acquisition of the operating assets of NuSoft Solutions, Inc. ("NuSoft"). Prior to April 2009 and the Company's July 6, 2009 acquisition of the operating assets of Project Solutions Group, Inc. ("PSG"), FASB issued "Accounting for Assets Acquired and Liabilities Assumed in Business Combinations That Arise from Contingencies" which requires that the fair value of any future contingent consideration be recorded as a liability. The Company has determined that the estimated fair value of the total future contingent consideration (Deferred Consideration and Earnouts) associated with the PSG acquisition is approximately $0.4 million. The amount actually paid, if any, may substantially exceed the estimated fair value. The Company has recorded this liability and increased its goodwill by a like amount.

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6. ACQUISITIONS (CONTINUED)

Future Contingent Payments (Continued)

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

Fiscal Year Ending	Amount
December 31, 2011	$944
December 29, 2012	164
December 28, 2013	184
Maximum deferred consideration	$1,292

The Company cannot estimate future Deferred Consideration payments with any certainty. However, the Company does not believe that the Deferred Consideration earned and payable in the fiscal year ending December 31, 2011 will exceed $144. Earnouts, if any, cannot be estimated with any certainty and as such are not included above. Earnouts paid, if any, are not likely to be material.

Project Solutions Group, Inc.

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

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

The PSG purchase consideration consisted of $0.5 million in cash and 100,000 shares of the Company's common stock, valued at $0.2 million. The fair value of the common shares issued was determined based on the closing market price of the Company's common stock on the last trading day prior to the effective date of the acquisition. Post closing consideration consists of potential Deferred Consideration payments up to $0.5 million and additional Earnout payments, with both amounts contingent upon PSG achieving certain base levels of operating income for certain post closing periods following the purchase. Additionally, the Company recorded a liability of approximately $0.4 million for the estimated net preset value of future contingent consideration potentially due in connection with the PSG acquisition. During fiscal 2010, the Company amended certain terms of the PSG purchase agreement which had the net effect of reducing a portion of the initial cash price and corresponding goodwill. Since this adjustment to the provisional amounts was identified during the measurement period as defined in authoritative accounting literature, the Company recognized the adjustment as if the amendment for the business combination had been completed as of the acquisition date (i.e., via retrospective adjustment). Accordingly, liability accounts and goodwill were reduced by $840 as of both January 1, 2011 and January 2, 2010. The effect of these adjustments on the Company's consolidated financial statements is not material.

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6. ACQUISITIONS (CONTINUED)

Project Solutions Group, Inc. (Continued)

The acquisition has been accounted for under the purchase method of accounting. The amended purchase price of approximately $0.7 million has been allocated as follows:

Customer relationships	$253
Restricted covenants	38
Goodwill	416
	$707

Pro Forma Results of Operations

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

	Fiscal Years Ended	
	January 1, 2011	January 2, 2010
Revenues	$162,022	$174,319
Operating income from continuing operations	$9,021	$2,746
Income from continuing operations	$6,417	$7,837
Diluted earnings per share from continuing operations	$0.49	$0.60

7. GOODWILL

As of November 27, 2010, the Company conducted its annual assessment of goodwill for impairment. To assess goodwill for impairment, the Company first compares the fair value of its reporting units with their net book value. The fair value of the reporting units is estimated using discounted expected future cash flows. If the fair value of the reporting units exceeds their net book value, goodwill is not impaired, and no further testing is necessary. If the net book value of the reporting units exceeds their fair value, a second test is performed to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, the Company determines the implied fair value of goodwill in the same manner as if the reporting units were being acquired in a business combination. Specifically, the fair value of the reporting units is allocated to all of the assets and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. If the implied fair value of goodwill is less than the goodwill recorded on the balance sheet, an impairment charge for the difference is recorded.

Based on the results of the annual assessment of goodwill for impairment, the fair value of all reporting units exceeded net book value as of November 27, 2010 and, therefore, there was no impairment of goodwill. 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. We look to earnings/revenue multiples of similar companies recently completing acquisitions and the ability of our reporting units to generate cash flows as better measures of the fair value of our reporting units, and under such calculations the fair value exceeded the recorded goodwill by at least 25% for each of the reporting units. Accordingly, the Company has determined it is not necessary to disclose detailed assumptions or estimates used in its impairment test.

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7.GOODWILL (CONTINUED)

The determination of the fair value of the reporting units requires the Company to make significant estimates and assumptions that affect the reporting unit's expected future cash flows. These estimates and assumptions primarily include, but are not limited to, the discount rate, terminal growth rates, operating income before depreciation and amortization and capital expenditures forecasts. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. In addition, changes in underlying assumptions would have a significant impact on either the fair value of the reporting units or the goodwill impairment charge, if any.

The allocation of the fair value of the reporting units to individual assets and liabilities within reporting units also requires the Company to make significant estimates and assumptions. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, customer relationships, non-competition agreements and current replacement costs for certain property, plant and equipment.

The changes in the carrying amount of goodwill for the fiscal years ended January 1, 2011 and January 2, 2010 as amended are as follows:

	Information Technology	Engineering	Specialty Health Care	Total
Balance as of December 27, 2008	$4,734	$ -	$1,703	$6,437
Goodwill acquired during 2009	416	100	-	516
Contingent consideration recorded	366	-	-	366
Balance as of January 1, 2011 and January 2, 2010	$5,516	$100	$1,703	$7,319

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8. INTANGIBLE ASSETS

The changes in the carrying amount of intangible assets for the fiscal years ended January 1, 2011 and January 2, 2010 are as follows:

	Information Technology	Engineering	Specialty Health Care	Total
Balance as of December 27, 2008	$197	$79	$ -	$276
Intangibles acquired during fiscal 2009	291	-	-	291
Amortization of intangibles during fiscal 2009	(68)	(35)	-	(103)
Balance as of January 2, 2010	420	44	-	464
Amortization of intangibles during fiscal 2010	(105)	(34)		(139)
Balance as of January 1, 2011	$315	$10	$ -	$325

Schedule Intangible Asset Classes

	Information Technology	Engineering	Specialty Health Care Services	Total
Balance as of January 1, 2011				
Restricted covenants	$24	$2	$ -	$26
Customer relationships	291	8	-	$299
	$315	$10	$ -	$325

Expected Future Amortization Expense

Fiscal Year	Information Technology	Engineering	Specialty	Total

			Health Care Services	
2011	$105	$10	$ -	$115
2012	105	-	-	105
2013	105	-	-	105
	$315	$10	$ -	$325

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

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as restrictions on the Company's ability to pay dividends. The Revolving Credit Facility expires in August 2011. We intend to seek to extend or replace the Revolving Credit Facility prior to such time if we determine that doing so would be in alignment with our financing needs.

There were no borrowings during the fiscal year ended January 1, 2011. During the fiscal year ended January 2, 2010, the Company's outstanding borrowings ranged from $-0- million to $4.9 million. The majority of borrowings during the fiscal year ended January 2, 2010 were subject to alternative (i) LIBOR (London Interbank Offered Rate), plus applicable margin on contracts of 30 days or more. At January 1, 2011 and January 2, 2010, there were letters of credit outstanding for $0.9 million and $1.6 million, respectively. At January 1, 2011, the Company had availability for additional borrowings under the Revolving Credit Facility of $14.1 million.

10. PER SHARE DATA

The number of common shares used to calculate basic and diluted earnings per share for fiscal years ended January 1, 2011 and January 2, 2010 was determined as follows:

	Fiscal Years Ended	
	January 1, 2011	January 2, 2010
Basic shares outstanding	13,053,593	12,888,539
Dilutive effect of stock options	148,842	3,991
Dilutive shares	13,202,435	12,892,530

For the fiscal year ended January 1, 2011, there were 660,900 options not included in the calculation of common stock equivalents because the exercise price of the options exceeded the average market price during the year.

For the fiscal year ended January 2, 2010, there were 1,289,594 options not included in the calculation of common stock equivalents because the exercise price of the options exceeded the average market price during the year.

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10. PER SHARE DATA (CONTINUED)

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

	January 1, 2011	January 2, 2010
Exercise of options outstanding	1,101,594	1,564,594
Future grants of options or shares	415,600	426,100
Shares reserved for employee stock purchase plan	320,364	394,536
Total	1,837,558	2,385,230

11. SHARE BASED COMPENSATION

At January 1, 2011, the Company had five share-based employee compensation plans. The Company measures the fair value of stock options, if and when granted, based on the Black-Scholes method and using the closing market price of the Company's common stock on the date of grant. Grants vest over periods ranging from one to three years and expire within 10 years of issuance. 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 $317 and $181 was recognized for the fiscal years ended January 1, 2011 and January 2, 2010, respectively.

The risk-free rate of return is based on the yield of U.S. Treasury Strips with terms equal to the expected life of the options as of the grant date. The expected term of option is based on historical stock option exercise experience. The Company used its historical stock price volatility to compute the expected stock price volatility. The expected dividend yield is based on the Company's practice of not paying dividends. The annual forfeiture rate is based on the Company's historical experience. The Black-Scholes option weighted average assumptions used in the valuation of stock options for the fiscal years ended January 1, 2011 and January 2, 2010 were as follows:

	Fiscal Years Ended	
	January 1, 2011	January 2, 2010
Weighted average risk-free interest rate	2.52%	2.23%
Expected term of option	5 years	5 years
Expected stock price volatility	65%	67%
Expected dividend yield	$0.0	$0.0

Annual forfeiture rate	6.12%	12.9%
Weighted-average grant date fair value	$1.99	$1.05

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11. SHARE BASED COMPENSATION (CONTINUED)

1992 Incentive Stock Option Plan (the 1992 Plan)

The 1992 Plan, approved by the Company’s stockholders in April 1992 and amended in April 1998, provided for the issuance of up to 500,000 shares of common stock per individual to officers, directors, and key employees of the Company and its subsidiaries through February 13, 2002, at which time the 1992 Plan expired. The options issued were intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code. The option terms were not to exceed 10 years and the exercise price was not to be less than the fair market value of the shares at the time of grant. The Compensation Committee of the Board of Directors determined the vesting period at the time of grant for each of these options. As of January 1, 2011, options to purchase 57,455 shares of common stock granted under the 1992 Plan were outstanding.

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

The 1994 Plan, approved by the Company’s stockholders in May 1994 and amended in April 1998, provided for the issuance of up to 110,000 shares of common stock to non-employee directors of the Company through February 19, 2004, at which time the 1994 Plan expired. Options granted under the 1994 Plan were granted at fair market value at the date of grant, and the exercise of options is contingent upon service as a director for a period of one year. Options granted under the 1994 Plan terminate when an optionee ceases to be a director of the Company. As of January 1, 2011, options to purchase 20,000 shares of common stock granted under the 1994 Plan were outstanding.

1996 Executive Stock Option Plan (the 1996 Plan)

The 1996 Plan, approved by the Company’s stockholders in August 1996 and amended in April 1999, provided for the issuance of up to 1,250,000 shares of common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006, at which time the 1996 Plan expired. Options are generally granted at fair market value at the date of grant. The Compensation Committee of the Board of Directors determined the vesting period at the time of grant. As of January 1, 2011, options to purchase 598,545 shares of common stock granted under the 1996 Plan were outstanding.

2000 Employee Stock Incentive Plan (the 2000 Plan)

The 2000 Plan, approved by the Company’s stockholders in April 2001, provides for the issuance of up to 1,500,000 shares of the Company’s common stock to officers and key employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors could award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determined the vesting period at the time of grant. As of January 1, 2011, options to purchase 276,194 shares of common stock granted under the 2000 Plan were outstanding.

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

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11. SHARE BASED COMPENSATION (CONTINUED)

2007 Omnibus Equity Compensation Plan (the 2007 Plan)

The 2007 Plan, approved by the Company's stockholders in June 2007, provides for the issuance of up to 700,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. The maximum aggregate number of shares of our common stock with respect to which all grants may be made under the Plan to any individual during any fiscal year is 300,000 shares. The maximum aggregate number of shares of our common stock that may be subject to grants of stock units, performance shares, stock awards and other stock-based awards made under the Plan to any individual during any calendar year is 350,000 shares. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of January 1, 2011, 415,600 shares of common stock were available for future grants under the 2007 Plan, and options to purchase 149,400 shares of common stock granted under the 2007 Plan were outstanding.

As of January 1, 2011, the Company had approximately $136 of total unrecognized compensation cost related to non-vested awards granted under the Company's various share-based plans, which the Company expects to recognize over approximately a three-year period. These amounts do not include the cost of any additional options that may be granted in future periods or reflect any potential changes in the Company's forfeiture rate.

Transactions related to all stock options are as follows:

	All Stock Options Outstanding	
	Shares	Weighted Average Exercise Price
Options outstanding as of December 27, 2008	1,293,900	$4.48
Options granted	365,194	$1.84
Options exercised	0	-
Options forfeited/cancelled	(94,500)	$4.45
Options outstanding as of January 2, 2010	1,564,594	$3.87
Options exercisable as of January 2, 2010	1,162,400	$4.32
Intrinsic value of outstanding stock options as of January 2, 2010	$231	
Options outstanding as of January 2, 2010	1,564,594	$3.87
Options granted	20,000	$3.48
Options exercised, net	(185,495)	$2.64
Options forfeited in cashless exercises	(226,505)	$3.32
Options forfeited/cancelled	(71,000)	$5.07

Options outstanding as of January 1, 2011	1,101,594	$4.10
Options exercisable as of January 1, 2011	887,400	$4.57
Intrinsic value of outstanding stock options as of January 1, 2011	$845	
Weighted average grant date fair value of stock options issued during fiscal year ended January 1, 2011	$1.99	

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11. SHARE BASED COMPENSATION (CONTINUED)

A summary of the status of our nonvested stock options outstanding as of January 1, 2011, and changes during the year then ended is presented as follows:

Nonvested Stock Options	Shares	Weighed-Average Grant-Date Fair Value
Nonvested at January 2, 2010	402,194	$1.41
Granted	20,000	$1.99
Vested	(193,500)	$1.75
Forfeited	(14,500)	$1.05
Nonvested at January 1, 2011	214,194	$1.17

The following table summarizes information about stock options outstanding at January 1, 2011:

Range of Exercise Prices	Number of Outstanding Options		Weighted-Average Remaining Contractual Life		Weighted-Average Exercise Price	
	Outstanding	Vested	Outstanding	Vested	Outstanding	Vested
$0.95 - $0.95	20,000	0	8.18	0	$0.95	$0.00
$1.73 - $2.50	183,694	14,500	8.35	6.69	$2.03	$2.10
$3.06 - $4.40	646,500	626,500	3.89	3.72	$4.18	$4.20
$4.70 - $6.91	216,400	211,400	3.92	3.85	$5.03	$5.02
$9.16 - $9.81	35,000	35,000	6.54	6.54	$9.62	$9.62
	1,101,594	887,400				

Employee Stock Purchase Plan

The Company implemented the 2001 Employee Stock Purchase Plan (the "Purchase Plan") with shareholder approval, effective January 1, 2001. 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. During the fiscal year ended January 1, 2011, there were 74,172 shares issued under the Purchase Plan for net proceeds of $149. As of January 1, 2011, there were 320,364 shares available for issuance under the Purchase Plan. Compensation expense, representing the discount to the quoted market price, for the Purchase Plan for the fiscal years ended January 1, 2011 and January 2, 2010 was $60 and $48, respectively.

On June 18, 2009, the Company's stockholders approved an amendment to the Purchase Plan increasing the total number of shares of common stock authorized for purchase by 300,000 (from 500,000 to 800,000 shares) and to extend the term of the Purchase Plan such that it will terminate on December 31, 2018.

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. During the fiscal year ended January 1, 2011, the Company repurchased 49,397 shares at a total cost of approximately $206, or an average price of $4.17 per share.

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Fiscal Years Ended January 1, 2011 and January 2, 2010
(Dollars in thousands, except share and per share amounts, unless otherwise indicated)

13. NEW ACCOUNTING STANDARDS

In April 2010, the FASB issued ASU No. 2010-17, Topic 605 – Revenue Recognition – Milestone Method ("USA 2010-17"), which provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. The amendments in ASU 2010-17 are effective on a prospective basis for milestones achieved in fiscal years beginning on or after June 15, 2010, and interim periods within those years. Early adoption is permitted; however, if a Company elects to early adopt, the amendment must be applied retrospectively from the beginning of the year of adoption. The Company has adopted ASU 2010-17 effective as of the beginning of the fiscal year ended January 1, 2011 but due to nonactivity of any applicable transactions, it did not impact its consolidated results of operations.

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

14. SEGMENT INFORMATION – CONTINUING OPERATIONS

The Company follows "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for companies to report information about operating segments, geographic areas and major customers. The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1).

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