

RCM TECHNOLOGIES INC  
Form 10-Q  
May 12, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **March 28, 2009**

**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) **95-1480559** (I.R.S. Employer Identification No.)

**2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613**

(Address of Principal Executive Offices) (Zip Code)

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

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

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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  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

Filer  (Do not check if a smaller reporting company)

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

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

Common Stock, \$0.05 par value, 12,813,522 shares outstanding as of May 11, 2009.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**PART I - FINANCIAL INFORMATION**

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**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS****March 28, 2009 and December 27, 2008***(Dollars in thousands, except share amounts)***ASSETS**

|  | March 28,<br>2009<br>(Unaudited) | December<br>27,<br>2008 |
|--|----------------------------------|-------------------------|
| <b>Current assets</b>  |                                  |                         |
| Cash and cash equivalents  | \$5,063                          | \$815                   |
| Accounts receivable, net of allowance for doubtful accounts<br>of \$1,311 (March 28, 2009) and \$942<br>(December 27, 2008 ), respectively | 51,132                           | 55,770                  |
| Prepaid expenses and other current assets  | 2,673                            | 3,012                   |
| Deferred tax assets  | 4,288                            | 6,580                   |
| Total current assets   | 63,156                           | 66,177                  |
| <br><b>Property and equipment, at cost</b>   |                                  |                         |
| Equipment and leasehold improvements   | 11,094                           | 11,278                  |
| Less: accumulated depreciation and amortization  | (5,619)                          | (5,692)                 |
|  | 5,475                            | 5,586                   |
| <br><b>Other assets</b>  |                                  |                         |
| Deposits   | 227                              | 264                     |
| Goodwill   | 6,538                            | 6,538                   |
| Intangible assets, net of accumulated amortization   | 259                              | 276                     |
| Total other assets   | 7,024                            | 7,078                   |
| Total assets   | \$75,655                         | \$78,841                |

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



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS – (Continued)**

**March 28, 2009 and December 27, 2008**

*(Dollars in thousands, except share amounts)*

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|  | March 28,<br>2009<br>(Unaudited) | December<br>27,<br>2008 |
|--|----------------------------------|-------------------------|
| Current liabilities  |                                  |                         |
| Line of credit   | \$ -                             | \$4,900                 |
| Accounts payable and accrued expenses  | 7,339                            | 8,375                   |
| Accrued compensation   | 5,774                            | 8,610                   |
| Payroll and withheld taxes   | 1,100                            | 1,067                   |
| Income taxes payable   | 472                              | 538                     |
|  |                                  |                         |
| Total current liabilities  | 14,685                           | 23,490                  |
| <br>Stockholders' equity   |                                  |                         |
| Preferred stock, \$1.00 par value; 5,000,000 shares<br>authorized;<br>no shares issued or outstanding  |                                  |                         |
| Common stock, \$0.05 par value; 40,000,000 shares<br>authorized;<br>12,813,522 and 12,774,026 shares<br>issued and outstanding<br>at March 28, 2009 and December<br>27, 2008, respectively | 641                              | 639                     |
| Additional paid-in capital   | 106,916                          | 106,788                 |
| Accumulated other comprehensive income   | 656                              | 720                     |
| Accumulated deficit  | (47,243)                         | (52,796)                |
|  |                                  |                         |
|  | 60,970                           | 55,351                  |
|  |                                  |                         |
| Total liabilities and stockholders'<br>equity  | \$75,655                         | \$78,841                |

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



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****Thirteen Weeks Ended March 28, 2009 and March 29, 2008****(Unaudited)***(Dollars in thousands, except share amounts)*

|   | March 28,<br>2009 | March 29,<br>2008 |
|---|-------------------|-------------------|
| Revenues  | \$48,048          | \$49,114          |
| Cost of services                                  | 37,107            | 36,816            |
| Gross profit                                      | 10,941            | 12,298            |
| Operating costs and expenses                      |                   |                   |
| Selling, general and administrative               | 11,007            | 10,485            |
| Bad debt – note receivable                        | -                 | 6,090             |
| Depreciation                                      | 367               | 281               |
| Amortization                                      | 16                | 80                |
|   | 11,390            | 16,936            |
| Operating loss                                    | (449)             | (4,638)           |
| Other income (expense)                            |                   |                   |
| Interest (expense) income, net                    | (20)              | 26                |
| (Loss) gain on foreign currency transactions      | (10)              | 1                 |
| Legal settlement                                  | 9,750             | -                 |
|   | 9,720             | 27                |
| Income (loss) before income tax expense (benefit) | 9,271             | (4,611)           |
| Income tax expense (benefit)                      | 3,718             | (1,942)           |
| Net income (loss)                                 | \$5,553           | (\$2,669)         |
| Basic earnings (loss) per share                   | \$0.43            | (\$0.22)          |
| Diluted earnings (loss) per share                 | \$0.43            | (\$0.22)          |

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





**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****(Unaudited)***(Dollars in thousands)*

|   | March 28,<br>2009 | Thirteen Weeks Ended<br>March 29,<br>2008 |
|---|-------------------|---|
| Common stock  |                   |   |
| Beginning of period                                     | \$639             | \$603                                     |
| Issuance of stock under stock purchase plan             | 2                 | -   |
| Issuance of common stock in connection with acquisition | -                 | 35  |
| End of period   | \$641             | \$638                                     |
| Additional paid-in-capital                              |                   |   |
| Beginning of period                                     | \$106,788         | \$102,951                                 |
| Issuance of stock under stock purchase plan             | 35                | -   |
| Issuance of common stock in connection with acquisition | -                 | 3,682                                     |
| Stock-based compensation expense                        | 93                | 93  |
| End of period   | \$106,916         | \$106,726                                 |
| Accumulated other comprehensive income                  |                   |   |
| Beginning of period                                     | \$720             | \$1,484                                   |
| Translation adjustment                                  | (64)              | 23  |
| End of period   | \$656             | \$1,507                                   |
| Accumulated deficit                                     |                   |   |
| Beginning of period                                     | (\$52,796)        | (\$12,990)                                |
| Net income (loss) income                                | 5,553             | (2,669)                                   |
| End of period   | (\$47,243)        | (\$15,659)                                |
| Comprehensive income (loss)                             |                   |   |
| Net income (loss)                                       | \$5,553           | (\$2,669)                                 |
| Translation adjustment                                  | (64)              | 23  |
| Total   | \$5,489           | (\$2,646)                                 |

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



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Thirteen Weeks Ended March 28, 2009 and March 29, 2008**  
**(Unaudited)**

*(Dollars in thousands)*

|   | March 28,<br>2009 | March 29,<br>2008 |
|---|-------------------|-------------------|
| Cash flows from operating activities:   |                   |                   |
| Net income (loss)   | \$5,553           | (\$2,669)         |
| Adjustments to reconcile net income (loss) to net cash provided by<br>(used in) operating activities, net of effects of acquisitions: |                   |                   |
| Depreciation and amortization   | 381               | 361               |
| Provision for allowance on accounts receivable  | 228               | (97)              |
| Provision for allowance on note receivable  | -                 | 6,090             |
| Stock based compensation expense  | 93                | 93                |
| Deferred tax assets   | 2,292             | (2,188)           |
| Changes in assets and liabilities:  |                   |                   |
| Accounts receivable   | 4,308             | (4,313)           |
| Prepaid expenses and other current<br>assets  | 482               | 5                 |
| Accounts payable and accrued<br>expenses  | (1,001)           | (1,452)           |
| Accrued compensation  | (2,815)           | (1,294)           |
| Payroll and withheld taxes  | 36                | 125               |
| Income taxes payable  | (204)             | (1,120)           |
| Total adjustments   | 3,800             | (3,790)           |
| Net cash provided by (used in) operating activities   | \$9,353           | (\$6,459)         |

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



## RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)

Thirteen Weeks Ended March 28, 2009 and March 29, 2008  
(Unaudited)

(Dollars in thousands)

|  | March 28,<br>2009 | March 29,<br>2008 |
|--|-------------------|-------------------|
| Cash flows from investing activities:                        |                   |                   |
| Property and equipment acquired                              | (\$255)           | (\$1,084)         |
| Decrease (increase) in deposits                              | 37                | (29)              |
| Cash paid for acquisition, net of working capital acquired   | -                 | (4,433)           |
| Net cash used in investing activities                        | (218)             | (5,546)           |
| Cash flows from financing activities:                        |                   |                   |
| Sale of stock for employee stock purchase plan               | 37                | -                 |
| Net borrowings on line of credit                             | (4,900)           | 5,000             |
| Net cash (used in) provided by financing activities          | (4,863)           | 5,000             |
| Effect of exchange rate changes on cash and cash equivalents | (24)              | 21                |
| Increase (decrease) in cash and cash equivalents             | 4,248             | (6,984)           |
| Cash and cash equivalents at beginning of period             | 815               | 11,642            |
| Cash and cash equivalents at end of period                   | \$5,063           | \$4,658           |
| Supplemental cash flow information:                          |                   |                   |
| Cash paid for:   |                   |                   |
| Interest expense   | \$67              | \$36              |
| Income taxes   | \$1,003           | \$1,517           |

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**1. Basis of Presentation**

The accompanying consolidated interim financial statements of RCM Technologies, Inc. and Subsidiaries (“RCM” or the “Company”) are unaudited. The year-end consolidated balance sheet was derived from audited statements but does not include all disclosures required by accounting principles generally accepted in the United States. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the Company’s consolidated financial statements and the notes thereto for the year ended December 27, 2008 included in the Company’s Annual Report Form 10-K for such period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Results for the thirteen weeks ended March 28, 2009 are not necessarily indicative of results that may be expected for the full year.

**2. Fiscal Year**

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. A 53-week year occurs periodically. The fiscal year ended December 27, 2008 was a 52-week reporting year. The first fiscal quarter of 2008, the 2008 fiscal year and the first fiscal quarter of 2009 ended on the following dates, respectively:

| Period Ended      | Weeks in Quarter | Weeks in Year to Date |
|-------------------|------------------|-----------------------|
| March 29, 2008    | Thirteen         | Thirteen              |
| December 27, 2008 | Thirteen         | Fifty-Two             |
| March 28, 2009    | Thirteen         | Thirteen              |

**3. Use of Estimates and Uncertainties**

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

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

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





**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**3. Use of Estimates and Uncertainties (Continued)**

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

**4. Note Receivable**

On February 26, 2008, the Company accepted a promissory note from a customer for \$7.5 million in payment of a like amount of accounts receivable from that customer. The customer paid \$1.2 million through April 30, 2008 at which point management of the Company concluded that the customer was going to default on its May 1, 2008 installment payment. During the thirteen weeks ended March 29, 2008, the Company determined that the note receivable was not collectible and reserved for the note. During the thirteen weeks ended September 27, 2008, the Company wrote off the note receivable.

**5. Acquisitions**

On March 19, 2008 the Company purchased the operating assets of NuSoft Solutions, Inc. ("NuSoft"), a Michigan corporation. NuSoft is a specialty provider of information technology services. The acquisition of NuSoft was completed in order to expand the Company's Information Technology solutions services within the Information Technology segment. The acquisition was effective as of March 1, 2008. The acquisition has been accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations." 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 purchase consideration at closing consisted of \$4.5 million in cash and 700,000 shares of RCM's common stock, par value \$0.05 (the "Common Stock"), valued at \$3.7 million and potential earn-out payments up to \$4.4 million of deferred consideration contingent upon NuSoft achieving certain base levels of operating income for each of the three 12-month periods following the purchase. Additional earn-out payments may be made at the end of each of the three 12-month periods following the purchase, to the extent that operating income exceeds these base levels. The acquisition has been accounted for under the purchase method of accounting. The source of cash utilized in the NuSoft acquisition was from the Company's revolving credit facility. The purchase price allocation of \$8.2 million is as follows:

|                          |         |
|--------------------------|---------|
| Customer Relationships   | \$2,260 |
| Covenants-Not-To-Compete | 424     |
| Goodwill                 | 5,125   |
| Equipment                | 446     |

The deferred consideration and earnouts, if paid, will be recorded as additional purchase consideration. Earnouts cannot be estimated with any certainty.

On April 28, 2008 the Company purchased the operating assets of MBH Solutions, Inc. ("MBH"), a New York corporation. MBH is a specialty provider of information technology services. The acquisition of MBH was completed in order to expand the Company's Information Technology solutions services within the Information Technology

business segment. The acquisition was effective as of April 1, 2008 and has been accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations." 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.



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**5. Acquisitions (Continued)**

The MBH purchase consideration at closing consisted of \$1.8 million in cash and assumption of \$1.3 million in certain liabilities and potential earn-out payments up to \$1.5 million of deferred consideration contingent upon MBH achieving certain base levels of operating income for each of the three 12-month periods following the purchase. Additional earn-out payments may be made at the end of each of the three 12-month periods following the purchase, to the extent that operating income exceeds these base levels.

The acquisition has been accounted for under the purchase method of accounting. The source of cash utilized in the MBH acquisition was from the Company's revolving credit facility. The purchase price allocation of \$3.1 million has been allocated as follows:

|                          |       |
|--------------------------|-------|
| Customer Relationships   | \$835 |
| Covenants-Not-To-Compete | 41    |
| Goodwill                 | 2,174 |
| Equipment                | 36    |

In connection with certain acquisitions, the Company is obligated to pay contingent consideration to the sellers upon the acquired business achieving certain earnings targets over periods ranging from two to three years following the acquisition. In general, the 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, which relate to various acquisitions, could result in the following maximum payments:

| Year Ending       | Amount  |
|-------------------|---------|
| January 2, 2010   | \$2,400 |
| January 1, 2011   | 2,300   |
| December 31, 2011 | 1,300   |
|                   | \$6,000 |

The above table represents the maximum Deferred Consideration payments. However, the Company's management believes that the actual amount paid in the year ending January 2, 2010 will be \$100. The Company cannot estimate the Deferred Consideration payments for the years ended January 1, 2011 and December 31, 2011 with any certainty.

The Deferred Consideration and Earnouts, when paid, will be recorded as additional purchase consideration and added to goodwill on the consolidated balance sheet. Earnouts, if any, cannot be estimated with any certainty.

The following (unaudited) results of operations have been prepared assuming the two previously described acquisitions 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 acquisitions occurred as of the beginning of the periods presented.

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|                              | Thirteen Weeks Ended |                   |
|------------------------------|----------------------|-------------------|
|                              | March 28,<br>2009    | March 29,<br>2008 |
| Revenues                     | \$48,048             | \$54,900          |
| Operating (loss) income      | (449)                | (4,336)           |
| Net income (loss)            | \$5,553              | (\$2,541)         |
| Earnings (loss) per<br>share | \$0.43               | (\$0.20)          |



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**6. Property and Equipment**

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

**7. New Accounting Standards**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"). This statement replaces SFAS No. 141, "Business Combinations," and requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. SFAS No. 141R requires costs incurred to effect the acquisition to be recognized separately from the acquisition as period costs. SFAS No. 141R also requires the acquirer to recognize restructuring costs that the acquirer expects to incur, but is not obligated to incur, separately from the business combination. In addition, SFAS No. 141R requires an acquirer to recognize assets and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. Other key provisions of this statement include the requirement to recognize the acquisition-date fair values of research and development assets separately from goodwill and the requirement to recognize changes in the amount of deferred tax benefits that are recognizable due to the business combination in either income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. The Company adopted SFAS 141R as of the required effective date and will apply its provisions prospectively to business combinations that occur after adoption.

In April 2009, the FASB issued FSP FAS 141R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies," (FSP FAS 141(R)-1), which amends and clarifies SFAS No. 141R. FSP FAS 141R-1 requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with FASB Statement No. 5, "Accounting for Contingencies," and FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss." Further, the FASB decided to remove the subsequent accounting guidance for assets and liabilities arising from contingencies from SFAS 141R, and carry forward without significant revision the guidance in SFAS No. 141, "Business Combinations." FSP FAS 141R-1 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This FSP will be effective for interim reporting periods ending after June 15, 2009. The Company is currently evaluating the disclosure requirements of this new FSP but no significant impact is expected on the determination or reporting of the Company's financial results.







**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**8. Line of Credit**

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, are amended and restated effective February 20, 2009, which now 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"). At December 27, 2008 the loan agreement provided for a \$25 million 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.

The weighted average interest rates under the Revolving Credit Facility for the thirteen weeks ended March 28, 2009 and March 29, 2008 were 2.2% and 4.6%, respectively. The majority of borrowings in 2008 and 2009 were subject to alternative (i) LIBOR (London Interbank Offered Rate), plus applicable margin on contracts of 30 days or more. During the thirteen weeks ended March 28, 2009 and March 29, 2008, the Company's outstanding borrowings ranged from \$-0- to \$4.9 million and \$-0- million to \$5.0 million, respectively. At March 28, 2009 and December 27, 2008, there were borrowings of \$0 million and \$4.9 outstanding under this facility, respectively. At March 28, 2009 and December 27, 2008, there were letters of credit outstanding for \$1.6 million. At March 28, 2009, the Company had availability for additional borrowings under the Revolving Credit Facility of \$13.4 million.

**9. Interest (Expense) Income, Net**

Interest (expense) income, net consisted of the following:

|                  | Thirteen Weeks Ended |           |
|------------------|----------------------|-----------|
|                  | March 28,            | March 29, |
|                  | 2009                 | 2008      |
| Interest expense | (\$15)               | (\$10)    |
| Unused line fee  | (7)                  | (5)       |
| Interest income  | 2                    | 41        |
|                  | (\$20)               | \$26      |



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS***(Dollars in thousands, except share and per share amounts, unless otherwise indicated)***10. Goodwill and Intangibles**

SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), requires the Company to perform a goodwill impairment test on at least an annual basis. Application of the goodwill impairment test requires significant judgments, including estimation of future cash flows, which are dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducts its annual goodwill impairment test as of November 30. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill. There were no triggering events during the thirteen weeks ended March 28, 2009 that have indicated a need to perform the impairment test prior to the Company's annual test date.

The changes in the carrying amount of goodwill for the thirteen weeks ended March 28, 2009 are as follows:

|  | Information |             |            |         |
|--|-------------|-------------|------------|---------|
|  | Technology  | Engineering | Commercial | Total   |
| Balance as of December 27, 2008                      | \$4,734     | \$ -        | \$1,804    | \$6,538 |
| Goodwill acquired during<br>the thirteen weeks ended |             |             |            |         |
| March 28, 2009                                       | -           | -           | -          | -       |
| Balance as of March 28, 2009                         | \$4,734     | \$ -        | \$1,804    | \$6,538 |

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

|                                  | March 28, 2009              |                             | December 27, 2008           |                             |
|----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Definite-lived intangible assets |                             |                             |                             |                             |
| Non-compete agreements           | \$31                        | \$18                        | \$31                        | \$17                        |
| Customer relationships           | 364                         | 118                         | 364                         | 102                         |
| Total                            | \$395                       | \$136                       | \$395                       | \$119                       |



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

## 11. Stockholders' Equity

### *Common Stock Reserved*

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

|                                 | March 28,<br>2009 | December 27,<br>2008 |
|---------------------------------|-------------------|----------------------|
| Exercise of options outstanding | 1,311,900         | 1,293,900            |
| Future grants of options        | 681,294           | 699,294              |
| Total                           | 1,993,194         | 1,993,194            |

## 12. Earnings Per Share

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

The number of common shares used to calculate basic and diluted (loss) earnings per share for the thirteen weeks ended March 28, 2009 and March 29, 2008 was determined as follows:

|                                     | Thirteen Weeks Ended |                   |
|-------------------------------------|----------------------|-------------------|
|                                     | March 28,<br>2009    | March 29,<br>2008 |
| Basic                               |                      |                   |
| Weighted average shares outstanding | 12,813,522           | 12,281,766        |
| Diluted                             |                      |                   |
| Shares used for basic calculation   | 12,813,522           | 12,281,766        |
| Dilutive effect of options granted  |                      |                   |
| under the Company's stock option    |                      |                   |
| plans                               | -                    | 205,182           |
|                                     | 12,813,522           | 12,486,948        |

In the reporting periods where there is net loss, the basic weighted average shares are used to determine loss per share because impact of stock options would be antidilutive.

## 13. Share - Based Compensation

At March 28, 2009, the Company had five share-based employee compensation plans. The Company measures the fair value of stock options, if and when granted, based upon the closing market price of the Company's common stock on

the date of grant. All grants typically vest over a three-year period and expire within 10 years of issuance. Stock options that vest in accordance with service conditions amortize over their applicable vesting period using the straight-line method.





**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**13. Share - Based Compensation (Continued)**

The Company recognizes compensation costs in the financial statements for all share-based payments granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment, revised 2004" ("SFAS No. 123R"). Compensation cost recognized in 2009 and 2008 included: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, adjusted for estimated forfeitures, and (b) compensation cost for all stock-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R), adjusted for estimated forfeitures. The straight-line recognition method is used to recognize compensation expense associated with share-based payments that are subject to graded vesting based on service conditions.

Share-based compensation expense of \$93, or \$0.01 per diluted share, and \$93, or \$0.01 per diluted share, was recognized for the thirteen weeks ended March 28, 2009 and March 29, 2008, respectively.

The Company anticipates that share-based compensation will not exceed \$800 for the year ending December 26, 2009 based on existing options as of March 28, 2009.

The weighted average fair value of options granted using the Black-Scholes Option Pricing Model during the thirteen weeks ended March 28, 2009 and March 29, 2008 has been estimated using the following assumptions:

|  | Thirteen Weeks Ended |           |
|--|----------------------|-----------|
|  | March 28,            | March 29, |
|  | 2009                 | 2008      |
| Weighted average risk-free interest rate | 1.90%                | 3.07%     |
| Expected term of option                  | 5 years              | 5 years   |
| Expected stock price volatility          | 64%                  | 57%       |
| Expected dividend yield                  | -                    | -         |
| Annual forfeiture rate                   | 15.9%                | 29.0%     |
| Weighted-average per share value granted | \$0.52               | \$2.77    |

***Incentive Stock Option Plans***

***1992 Incentive Stock Option Plan (the 1992 Plan)***

The 1992 Plan, approved by the Company's stockholders in April 1992 and amended in April 1998, provided for the issuance of up to 500,000 shares of common stock per individual to officers, directors, and key employees of the Company and its subsidiaries through February 13, 2002, at which time the 1992 Plan expired. The options issued were intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code. The option terms were not permitted to exceed 10 years and the exercise price was not permitted to be less than 100% of the fair market

value of the shares at the time of grant. The Compensation Committee of the Board of Directors determined the vesting period at the time of grant for each of these options. As of March 28, 2009, options to purchase 60,455 shares of common stock granted under the 1992 Plan were outstanding.



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**13. Share - Based Compensation (Continued)**

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

The 1994 Plan, approved by the Company's stockholders in May 1994 and amended in April 1998, provided for 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 March 28, 2009, options to purchase 50,000 shares of common stock granted under the 1994 Plan were outstanding.

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

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provides for 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 determines the vesting period at the time of grant. As of March 28, 2009, options to purchase 679,545 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 issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors may award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determines the vesting period at the time of grant. As of March 28, 2009, 8,694 shares of common stock were available for future grants under the 2000 Plan, and options to purchase 494,500 shares of common stock granted under the 2000 Plan were outstanding.

*2007 Omnibus Equity Compensation Plan (the 2007 Plan)*

The 2007 Plan, approved by the Company's stockholders in June 2007, provides for the issuance of up to 700,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. No more than 350,000 shares of common stock in the aggregate may be issued pursuant to grants of stock awards, stock units, performance shares and other stock-based awards. No more than 300,000 shares of common stock with respect to awards may be granted to any individual during any fiscal year. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of March 28, 2009, 672,600 shares of common stock were available for future grants under the 2007 Plan, and options to purchase 27,400 shares of common stock granted under the 2007 Plan were outstanding.

As of March 28, 2009, the Company had approximately \$99 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.





**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**13. Share - Based Compensation (Continued)**

***Incentive Stock Option Plans (Continued)***

***Employee Stock Purchase Plan***

The Company implemented an 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 thirteen weeks ended March 28, 2009, there were 39,496 shares issued under the Purchase Plan for net proceeds of \$37. As of March 28, 2009, there were 141,792 shares available for issuance under the Purchase Plan. The Company has proposed an amendment to the Purchase Plan to increase the number of shares available thereunder by 300,000. This proposal is subject to the approval of stockholders at the upcoming annual meeting of stockholders for 2009.





**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS***(Dollars in thousands, except share and per share amounts, unless otherwise indicated)***14. Segment Information**

The Company follows SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), which establishes standards for companies to report information about operating segments, geographic areas and major customers. The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1 to the consolidated financial statements).

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

**Thirteen Weeks Ended**

| <b>March 28, 2009</b>                       | Information<br>Technology | Engineering | Commercial | Corporate | Total    |
|---|---------------------------|-------------|------------|-----------|----------|
| Revenue                                     | \$22,901                  | \$14,873    | \$10,274   | -         | \$48,048 |
| Operating expenses <sup>(1) (2)</sup>       | 23,691                    | 14,462      | 9,961      | -         | 48,114   |
| EBITDA <sup>(3)</sup>                       | (790)                     | 411         | 313        | -         | (66)     |
| Depreciation                                | 163                       | 153         | 51         | -         | 367      |
| Amortization of intangibles                 | 8                         | 8           | -          | -         | 16       |
| Operating income (loss)                     | (961)                     | 250         | 262        | -         | (449)    |
| Interest expense, net of<br>interest income | 10                        | 6           | 4          | -         | 20       |
| Loss on foreign currency<br>transactions    | -                         | 10          | -          | -         | 10       |
| Legal settlement                            | -                         | -           | -          | (9,750)   | (9,750)  |
| Income (benefit) taxes                      | (388)                     | 93          | 103        | 3,910     | 3,718    |
| Net (loss) income                           | (\$583)                   | \$141       | \$155      | \$5,840   | \$5,553  |
| Total assets                                | \$26,196                  | \$21,860    | \$11,586   | \$16,013  | \$75,655 |
| Capital expenditures                        | \$5                       | \$54        | \$2        | \$194     | \$255    |



## RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)***14. Segment Information (Continued)**

| <b>Thirteen Weeks Ended<br/>March 29, 2008</b> | Information<br>Technology | Engineering | Commercial | Corporate | Total     |
|--|---------------------------|-------------|------------|-----------|-----------|
| Revenue  | \$22,439                  | \$14,045    | \$12,630   | -         | \$49,114  |
| Operating expenses <sup>(1) (2)</sup>          | 21,979                    | 13,476      | 11,846     | -         | 47,301    |
| EBITDA <sup>(3)</sup>                          | 460                       | 569         | 784        | -         | 1,813     |
| Bad debt - note receivable                     | -                         | 6,090       | -          | -         | 6,090     |
| Depreciation                                   | 127                       | 106         | 48         | -         | 281       |
| Amortization of intangibles                    | 71                        | 9           | -          | -         | 80        |
| Operating income (loss)                        | 262                       | (5,636)     | 736        | -         | (4,638)   |
| Interest income, net of<br>interest expense    | (5)                       | (8)         | (13)       | -         | (26)      |
| Gain on foreign currency<br>transactions       | -                         | (1)         | -          | -         | (1)       |
| Income taxes (benefit)                         | 89                        | (2,281)     | 250        | -         | (1,942)   |
| Net income (loss)                              | \$178                     | \$308       | \$499      | -         | (\$2,669) |
| Total assets                                   | \$61,468                  | \$21,740    | \$16,117   | \$12,443  | \$111,768 |
| Capital expenditures                           | \$463                     | \$223       | \$1        | \$840     | \$1,084   |

<sup>(1)</sup> Operating expenses exclude depreciation and amortization.

<sup>(2)</sup> Operating expenses include \$93 of share based compensation expense for the thirteen weeks ended March 28, 2009 and

March 29, 2008.

<sup>(3)</sup> EBITDA means earnings before interest, taxes, depreciation and amortization. We believe that EBITDA, as presented, represents a useful measure of assessing the performance of our operating activities, as it reflects our earnings trends without the impact of certain non-cash and unusual charges or income. EBITDA is also used by our

creditors in assessing debt covenant compliance. We understand that, although security analysts frequently use EBITDA in the evaluation of companies, it is not necessarily comparable to EBITDA of other companies due to potential inconsistencies in the method of calculation. EBITDA is not intended as an alternative to cash flow provided by operating activities as a measure of liquidity, nor as an alternative to net income as an indicator of our operating performance, nor as an alternative to any other measure of performance in conformity with generally accepted accounting principles in the United States of America.



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS***(Dollars in thousands, except share and per share amounts, unless otherwise indicated)***14. Segment Information (Continued)**

Revenues reported for each operating segment are from external customers.

The Company is domiciled in the United States and its segments operate in the United States and Canada. Revenues and fixed assets by geographic area as of and for the thirteen weeks ended March 28, 2009 and March 29, 2008 are as follows:

|              | Thirteen Weeks Ended |                   |
|--------------|----------------------|-------------------|
|              | March 28,<br>2009    | March 29,<br>2008 |
| Revenues     |                      |                   |
| U. S.        | \$43,401             | \$44,157          |
| Canada       | 4,647                | 4,957             |
|              | \$48,048             | \$49,114          |
| Fixed Assets |                      |                   |
| U. S.        | \$5,383              | \$4,946           |
| Canada       | 92                   | 86                |
|              | \$5,475              | \$5,032           |

**15. Legal Settlement**

In late 1998, two shareholders who were formerly officers and directors of the Company filed suit against the Company. The former officers and directors alleged that the Company wrongfully limited the number of shares of the Company's common stock that could have been sold by the plaintiffs under a registration rights agreement entered into in connection with an acquisition transaction pursuant to which the plaintiffs became shareholders of the Company.

A trial in 2002 resulted in a judgment in favor of the plaintiffs for \$7.6 million that was affirmed on appeal. In June 2006, the Company paid \$8.6 million, which included post-judgment interest and other items totaling \$1.0 million to the plaintiffs to satisfy the judgment.

In November 2002, the Company filed suit on professional liability claims against the attorneys and law firms who had served as its counsel in the acquisition transaction and in connection with its subsequent dealings with the plaintiffs concerning their various relationships with the Company resulting from that transaction. In its lawsuit against its former counsel, the Company was seeking complete indemnification with respect to (1) its costs and counsel fees incurred in the defense against the claims of the plaintiffs; (2) the amount it paid to satisfy the judgment; and (3) its costs and counsel fees incurred in the prosecution of the legal malpractice action itself. In February 2007, the Company reached a settlement with one of the law firm defendants resulting in the recovery of \$0.8 million. On March 16, 2009 the Company entered into a settlement agreement with the remaining defendants in this lawsuit. The Company received \$9.8 million, \$5.9 net of tax effect, on March 27, 2009.







**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**16. Contingencies**

The Company is party to two agreements of indemnity related to the performance of two construction projects. One of these construction projects is managed by a former customer of the Company and management of the Company believes this project will be completed by the end of the second quarter of 2009. The second of these construction projects was managed by the same customer prior to November 2008 when the initial contract was transferred to the Company. The Company now acts as the general contractor on this construction project. The contract price is approximately \$6.2 million and management of the Company estimates it was approximately 74% complete as of March 28, 2009. The Company believes this project will be finished by the fourth quarter of 2009. In the event of non-performance on either construction project, the Company may be obligated to indemnify the project owners for certain cost overruns on such projects. Management believes that any such cost overruns would not have a significant adverse financial impact to the financial position of the Company and its results of operations.

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



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**RESULTS OF OPERATIONS**

**Private Securities Litigation Reform Act Safe Harbor Statement**

Certain statements included herein and in other reports and public filings made by RCM Technologies, Inc. ("RCM" or the "Company") are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements regarding the adoption by businesses of new technology solutions; the use by businesses of outsourced solutions, such as those offered by the Company in connection with such adoption; and the outcome of litigation (at both the trial and appellate levels) involving the Company. Readers are cautioned that such forward-looking statements, as well as others made by the Company, which may be identified by words such as "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "believe," "anticipate," "expect," "estimate," "project," "intend," "believe," and similar expressions, are only predictions and are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially from such statements. Such risks and uncertainties include, without limitation: (i) unemployment and general economic conditions affecting the provision of information technology and engineering services and solutions and the placement of temporary staffing personnel; (ii) the Company's ability to continue to attract, train and retain personnel qualified to meet the requirements of its clients; (iii) the Company's ability to identify appropriate acquisition candidates, complete such acquisitions and successfully integrate acquired businesses; (iv) uncertainties regarding 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; (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.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations - (Continued)**

*Overview*

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

After pro forma adjustments to remove the impact of two acquisitions in its Information Technology segment completed in 2008, RCM experienced a significant decline in its 2008 revenues and gross profit as compared to 2007, particularly in its Information Technology and Engineering segments. RCM believes the decline in its Information Technology pro forma revenues was principally due to a deterioration of overall economic conditions in its geographic markets and industry verticals served in 2008. The principal reason for the decline in 2008 Engineering revenues as compared to 2007 was due to the loss of a major customer. After normalizing for 2008 acquisitions, the Company experienced a significant decline in revenues during the thirteen weeks ended March 28, 2009 as compared to the comparable prior year period. The Company attributes this decline to overall economic conditions in its geographic markets and industry verticals, particularly in its Information Technology and Commercial segments.

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

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

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

The Company provides project management and consulting services, which are billed based on either agreed-upon fixed fees or hourly rates, or a combination of both. The billing rates and profit margins for project management and solutions services are 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.



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**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 reporting responsibilities and acquisition program. The Company records these expenses when incurred. Depreciation relates primarily to the fixed assets of the Company. Amortization relates to the allocation of the purchase price of an acquisition, which has been assigned to covenants not to compete, and customer lists. Acquisitions have been accounted for under Financial Accounting Standards Board ("FASB") Statement of Financial Account Standards ("SFAS") No. 141, "Business Combinations," and have created goodwill.

***Critical Accounting Policies***

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

***Revenue Recognition***

The Company derives its revenues from several sources. All of the Company's segments perform consulting and staffing services. The Company's Engineering Services and Information Technology Services segments also perform project services. All of the Company's segments derive revenue from permanent placement fees.

***Project Services - The Company recognizes revenues in accordance with the Securities and Exchange Commission, Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB 104") 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 recognizes revenue 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. In addition, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when the contract is completed and the revenue is reasonably certain of collection. Some contracts also limit revenues and billings to maximum amounts. Provision for contract losses, if any, is made in the period such losses are determined. For contracts where***



**there are multiple deliverables and the work has not been 100% complete on a specific deliverable, the costs have been deferred. The associated costs are expensed when the related revenue is recognized.**



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**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 the administrative fee).

*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 as a component of revenue.

***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 for accounts and note receivable. 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 are credited to the allowance for doubtful accounts.

***Goodwill***

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets we have acquired in business combinations. SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142") requires the Company 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 our 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 our share price and market capitalization, a decline in our 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 thirteen weeks ended March 28, 2009 that have indicated a need to perform the impairment test prior to the Company's annual test date. Goodwill was \$6.5 million at March 28, 2009 and December 27, 2008.



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations - (Continued)**

***Long-Lived 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.

Effective as of January 1, 2006, the Company adopted SFAS No. 123R "Share Based Payment" ("SFAS No. 123R"). SFAS No. 123R 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. SFAS No. 123R covers a wide range of stock-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee stock purchase plans.

In addition to the accounting standard that sets forth the financial reporting objectives and related accounting principles, SFAS No. 123R includes an appendix of implementation guidance that provides expanded guidance on measuring the fair value of stock-based payment awards. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB No. 107") relating to SFAS No. 123R. The Company has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123R.

Since the Company adopted SFAS No. 123R, effective January 1, 2006, using the modified-prospective transition method, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as of the beginning of the period of adoption. The Company measures stock-based compensation cost using the Black-Scholes option pricing model.

***Accounting for Income Taxes***

In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance and estimates of future earnings. As of March 28, 2009, the Company had total net deferred tax assets of \$4.3 million, primarily representing the tax effect of temporary differences for the GAAP versus tax amortization of acquisitions made in prior periods. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), on January 1, 2007. The Company recognized no material adjustments in the liability for unrecognized income tax benefits due to the adoption of FIN 48. The Company conducts its operations in multiple tax jurisdictions in the United States and Canada. With limited exceptions, the Company is no longer subject to audits by state and local tax authorities for tax years prior to 2003. The Company's federal income tax returns have been examined

through 2007. As of March 28, 2009, the Company did not have any uncertain tax positions.





**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations - (Continued)**

***Accounting for Income Taxes (Continued)***

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 consulting and engineering services as well as temporary and permanent employees. 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.

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 employment services market is highly competitive with limited barriers to entry. RCM competes in global, national, regional and local markets with numerous consulting, engineering and employment companies. 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.



## RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis of

## Financial Condition and Results of Operations - (Continued)

## Thirteen Weeks Ended March 28, 2009 Compared to Thirteen Weeks Ended March 29, 2008

A summary of operating results for the fiscal periods ended March 28, 2009 and March 29, 2008 is as follows (in thousands, except for earnings per share data):

|   | March 28, 2009 |              | March 29, 2008 |              |
|---|----------------|--------------|----------------|--------------|
|   | Amount         | % of Revenue | Amount         | % of Revenue |
| Revenues  | \$48,048       | 100.0        | \$49,114       | 100.0        |
| Cost of services                                  | 37,107         | 77.2         | 36,816         | 75.0         |
| Gross profit                                      | 10,941         | 22.8         | 12,298         | 25.0         |
| Selling, general and administrative               | 11,007         | 22.9         | 10,485         | 21.4         |
| Bad debt - note receivable                        | -              | -            | 6,090          | 12.4         |
| Depreciation and amortization                     | 383            | 0.8          | 361            | 34.5         |
|   | 11,390         | 23.7         | 16,936         | 34.5         |
| Operating loss                                    | (449)          | (0.9)        | (4,638)        | (9.4)        |
| Other income, net                                 | 9,720          | 20.2         | 27             | -            |
| Income (loss) before income tax expense (benefit) | 9,271          | 19.3         | (4,611)        | (9.4)        |
| Income tax expense (benefit)                      | 3,718          | 7.7          | (1,942)        | (4.0)        |
| Net (loss) income                                 | \$5,553        | 11.6         | (\$2,669)      | (5.4)        |
| Earnings (loss) per share                         |                |              |                |              |
| Basic:  | \$0.43         |              | (\$0.22)       |              |
| Diluted:  | \$0.43         |              | (\$0.22)       |              |

The above summary is not a presentation of results of operations under accounting principles generally accepted 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. A 53-week year occurs periodically. The year to date reporting periods ended March 28, 2009 and March 29, 2008 consisted of thirteen weeks each.

**Revenues.** Revenues decreased 2.2%, or \$1.1 million, for the thirteen weeks ended March 28, 2009 as compared to the same period in the prior year (the "comparable prior year period"). Revenues increased \$0.5 million in the Information Technology segment, increased \$0.8 million in the Engineering segment, and decreased \$2.4 million in the Commercial segment. Management attributes the overall decrease to a weakening of the general economy offset by revenues from acquisitions made in 2008. Revenues that were attributable to acquisitions which occurred in the Information Technology segment in 2008 contributed \$5.7 million in the thirteen weeks ended March 28, 2009 as compared to \$1.5 million in the comparable prior year period. Management expects revenues for the remainder of

fiscal 2009 to remain generally consistent with the revenues for the thirteen weeks ended March 28, 2009.



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations - (Continued)**

**Thirteen Weeks Ended March 28, 2009 Compared to Thirteen Weeks Ended March 29, 2008 - (Continued)**

**Cost of Services.** Cost of services increased 0.8%, or \$0.3 million, for the thirteen weeks ended March 28, 2009 as compared to the comparable prior year period. Cost of services as a percentage of revenues increased to 77.2% for the thirteen weeks ended March 28, 2009 from 75.0% for the comparable prior year period. These increases were primarily due to increased unbilled labor costs for consultants in our Information Technology segment and revenue growth in our Engineering segment offset by a decrease in revenues in our Commercial segment. Management anticipates the ratio of cost of sales to revenues for the remainder of fiscal 2009 to remain comparable to that in the thirteen weeks ended March 28, 2009.

**Selling, General and Administrative.** Selling, general and administrative ("SGA") expenses increased 5.0%, or \$0.5 million, for the thirteen weeks ended March 28, 2009 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 22.9% for the thirteen weeks ended March 28, 2009 as compared to 21.4% for the comparable prior year period. This percentage increase was primarily attributable to additional SGA expenses incurred in connection with two acquisitions subsequent to February 28, 2008 combined with decreased revenues overall. Management expects SGA expenses for the remainder of fiscal 2009 to remain generally consistent with the SGA expenses for the thirteen weeks ended March 28, 2009.

**Bad Debt - Note Receivable.** On February 26, 2008, the Company accepted a promissory note from a customer for \$7.5 million in payment of a like amount of accounts receivable from that customer. The customer paid \$1.2 million through April 30, 2008 at which point management of the Company concluded that the customer was going to default on its May 1, 2008 installment payment. During the thirteen weeks ended March 29, 2008, the Company determined that the note receivable was not collectible and reserved for the note. During the thirteen weeks ended September 27, 2008, the Company wrote-off the note receivable.

**Depreciation and Amortization.** Depreciation and amortization increased 6.1%, or \$22,000, for the thirteen weeks ended March 28, 2009 as compared to the comparable prior year period.

**Other Income (Expense).** Other income (expense) consists of interest expense, net of interest income and gains and losses on foreign currency transactions and, in 2009, the proceeds from a legal settlement. For the thirteen weeks ended March 28, 2009, actual interest expense and unused credit line fees of approximately \$21,000 was offset by approximately \$1,000 of interest income. For the thirteen weeks ended March 29, 2008, actual interest expense and unused credit line fees of approximately \$15,000 was offset by approximately \$41,000 of interest income. The Company realized losses on foreign currency transactions of approximately \$10,000 for the thirteen weeks ended March 28, 2009 as compared to gains on foreign currency transactions of approximately \$1,000 for the comparable prior year period. This change was attributable to unfavorable exchange rates realized during the 2009 period. The proceeds from the legal settlement in 2009 were realized when the Company reached a legal settlement resulting in cash proceeds of \$9.8 million (see footnote 15 to the consolidated financial statements).



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations - (Continued)**

**Thirteen Weeks Ended March 28, 2009 Compared to Thirteen Weeks Ended March 29, 2008 - (Continued)**

**Income Tax.** Income tax expense was \$3.7 million for the thirteen weeks ended March 28, 2009 as compared to an income tax benefit of \$1.9 million in the comparable prior year period. The change was principally attributable to an increase in income before taxes, which included a \$9.8 million legal settlement in the thirteen weeks ended March 28, 2009 and a \$6.1 million bad debt expense on a note receivable for the comparable prior year period. The effective tax rate was 40.1% for the thirteen weeks ended March 28, 2009 as compared to 42.1% in the comparable prior year period.

**Segment Discussion (See Footnote 14)**

**Information Technology**

Information Technology revenues of \$22.9 million in 2009 increased \$0.5 million, or 2.1%, compared to 2008. The increase in revenue was attributable to acquisitions in 2008 offset by the weakness in the economy and reduced demand for the Company's Information Technology services. The Information Technology segment EBITDA was negative \$0.8 million as compared to positive \$0.5 million for the comparable prior year period. The change in EBITDA was primarily due to weakness in overall demand for Information Technology services and increased unbilled labor costs for consultants.

**Engineering**

Engineering revenues of \$14.9 million in 2009 increased \$0.8 million, or 6.0%, as compared to the comparable prior year period. The increase in revenue was primarily attributable to increases in revenues from several major customers as compared to the comparable prior year period. The Engineering segment EBITDA was \$0.4 million as compared to \$0.6 million for the comparable prior year period. The decrease in EBITDA was primarily due to a higher allocation of corporate selling, general and administrative costs as compared to the comparable prior year period.

**Commercial**

Commercial revenues of \$10.3 million in 2009 decreased \$2.4 million, or 18.7%, compared to the comparable prior year period. The decrease in revenues was principally attributable to decreased demand for the Company's light industrial and clerical staffing services. The Commercial segment EBITDA was \$0.3 million as compared to \$0.8 million for the comparable prior year period. The decrease in EBITDA was primarily due to the decrease in revenues.





**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations - (Continued)****Liquidity and Capital Resources**

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

| (In thousands)               | Thirteen Weeks Ended |                   |
|------------------------------|----------------------|-------------------|
|                              | March 28,<br>2009    | March 29,<br>2008 |
| Cash provided by (used for): |                      |                   |
| Operating Activities         | \$9,353              | (\$6,459)         |
| Investing Activities         | (\$218)              | (\$5,546)         |
| Financing Activities         | (\$4,900)            | \$5,000           |

***Operating Activities***

Operating activities provided \$9.4 million of cash for the thirteen weeks ended March 28, 2009 as compared to \$6.5 million used in the comparable prior year period. The change in cash provided by (used in) operating activities in 2009 was primarily attributable to net income of \$5.6 million, decreases in accounts receivable, deferred tax assets and prepaid expenses and other current assets, offset by decreases in accounts payable, accrued expenses and accrued compensation.

***Investing Activities***

Investing activities used \$0.2 million for the thirteen weeks ended March 28, 2009 as compared to \$5.5 million for the comparable prior year period. The decrease in the use of cash for investing activities for 2009 as compared to the comparable 2008 period was primarily attributable to the fact that no acquisitions were made in 2009 and to decreases in expenditures for property and equipment.

***Financing Activities***

In 2009, financing activities consisted of reducing debt by \$4.9 million. In 2008, financing activities principally consisted of borrowing \$5.0 million from the line of credit to finance the acquisition of NuSoft Solutions, Inc. (See footnote 5 to the financial statements).

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, as amended and restated effective February 20, 2009, which now 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.





**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations - (Continued)**

**Liquidity and Capital Resources - (Continued)**

*Financing Activities - (Continued)*

The weighted average interest rates under the Revolving Credit Facility for the thirteen weeks ended March 28, 2009 and March 29, 2008 were 2.2% and 4.6%, respectively. The majority of borrowings in 2008 and 2009 were subject to alternative (i) LIBOR (London Interbank Offered Rate), plus applicable margin on contracts of 30 days or more. During the thirteen weeks ended March 28, 2009 and March 29, 2008, the Company's outstanding borrowings ranged from \$0- to \$4.9 million and \$0- million to \$5.0 million, respectively. At March 28, 2009 and December 27, 2008, there were borrowings of \$0 million and \$4.9 million outstanding under this facility, respectively. At March 28, 2009 and December 27, 2008, there were letters of credit outstanding for \$1.6 million. At March 28, 2009, the Company had availability for additional borrowings under the Revolving Credit Facility of \$13.4 million.

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

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

The Company does not currently have material commitments for capital expenditures and does not currently anticipate entering into any such 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 the next 12 months.

At March 28, 2009, the Company had a deferred tax asset totaling \$4.3 million, primarily representing the tax effect of temporary differences for GAAP versus tax amortization of acquisitions made in prior periods.



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations - (Continued)****Liquidity and Capital Resources - (Continued)***Financing Activities - (Continued)*

Summarized below are the Company's obligations and commitments to make future payments under lease agreements and debt obligations as of March 28, 2009 (in thousands):

|                             | Total    | Less<br>Than<br>1 Year | Payments Due by Period |              | More<br>Than<br>5 Years |
|-----------------------------|----------|------------------------|------------------------|--------------|-------------------------|
|                             |          |                        | 1-3<br>Years           | 3-5<br>Years |                         |
| Operating lease obligations | \$12,441 | \$4,165                | \$7,434                | \$842        | \$ -                    |

The Company also has a Revolving Credit Facility totaling \$15.0 million and includes a sub-limit of \$5.0 million for letters of credit. As of March 28, 2009, there were no outstanding borrowings. At March 28, 2009, there were outstanding letters of credit for \$1.6 million. The agreement expires in August 2011.





**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations - (Continued)**

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

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of its Revolving Credit Facility. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of March 28, 2009, 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 1.0% (100 basis points) increase in interest rates on its variable debt (using an incremental borrowing rate) would have a relatively nominal impact on the Company's results of operations. The Company does not expect any material loss with respect to its investment portfolio.

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

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



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**PART II**

**OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

See discussion of Legal Proceedings in Note 15 to the consolidated financial statements included in Item 1 of this report.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors disclosed in the “Risk Factors” section (Item 1A) of the Company’s Annual Report on Form 10-K for the year ended December 27, 2008.



**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**ITEM 6. EXHIBITS**

- 10.1 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. (Filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated February 25, 2009, and incorporated herein by reference.)
- 31.1 Certification of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Chief Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)
- 32.2 Certification of Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)



**RCM TECHNOLOGIES, INC.**

**SIGNATURES**

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

**RCM Technologies, Inc.**

Date: May 11, 2009

By: /s/ Kevin Miller

**Kevin Miller**

Chief Financial Officer,

(Principal Financial Officer and  
Duly Authorized Officer of the Registrant)

**Exhibit 31.1**

**RCM TECHNOLOGIES, INC.**

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

**CERTIFICATION**

I, Leon Kopyt, certify that:

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



report financial information; and

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

Date: May 11, 2009

/s/ Leon Kopyt

Leon Kopyt

Chairman, President and Chief Executive Officer



**Exhibit 31.2**

**RCM TECHNOLOGIES, INC.**

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

**CERTIFICATION**

I, Kevin Miller, certify that:

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

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- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2009

/s/ Kevin Miller

Kevin Miller  
Chief Financial Officer

**Exhibit 32.1**

**RCM TECHNOLOGIES, INC.**

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

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

(1) The Company’s periodic report on Form 10-Q for the quarter ended March 28, 2009 (the “Form 10-Q”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

\* \* \*

/s/ Leon Kopyt

Leon Kopyt

President and Chief Executive Officer

Date: May 11, 2009



**Exhibit 32.2**

**RCM TECHNOLOGIES, INC.**

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

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

(1) The Company’s periodic report on Form 10-Q for the quarter ended March 28, 2009 (the “Form 10-Q”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

\* \* \*

/s/ Kevin Miller

Kevin Miller

Chief Financial Officer

Date: May 11, 2009