

RCM TECHNOLOGIES INC
Form 10-Q
August 10, 2017

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 July 1, 2017

OR

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

For the transition period from _____ to _____

Commission file number: 1-10245

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

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

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

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

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

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

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

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"accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act). (Check one):

Large Accelerated Filer []	Accelerated Filer []	Non-Accelerated Filer [] (Do not check if a smaller reporting company)	Smaller Reporting Company [X]	Emerging Growth Company []
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

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

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

Common Stock, \$0.05 par value, 12,009,699 shares outstanding as of August 9, 2017.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

July 1, 2017 and December 31, 2016

(In thousands, except share and per share amounts)

	July 1, 2017 (Unaudited)	December 31, 2016		
Current assets:				
Cash and cash equivalents	\$391	\$279		
Accounts receivable, net	43,152	45,170		
Transit accounts receivable	2,370	4,295		
Prepaid expenses and other current assets	3,079	3,327		
Total current assets	48,992	53,071		
Property and equipment, net	3,829	4,052		
Other assets:				
Deposits	210	212		
Goodwill	12,458	12,325		
Intangible assets, net	137	171		
Total other assets	12,805	12,708		
Total assets	\$65,626	\$69,831		
Current liabilities:				
Accounts payable and accrued expenses			\$7,740	\$8,154
Transit accounts payable			4,579	6,776
Accrued payroll and related costs			7,656	7,185
Income taxes payable			1,004	537
Contingent consideration			1,525	1,061
Total current liabilities			22,504	23,713
Deferred tax liability, domestic			343	148
Deferred tax liability, foreign			234	234
Contingent consideration			240	170
Borrowings under line of credit			10,092	14,311
Total liabilities			33,413	38,576
Stockholders' equity:				
Preferred stock, \$1.00 par value; 5,000,000 shares authorized; no shares issued or outstanding			-	-
Common stock, \$0.05 par value; 40,000,000 shares authorized;				

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14,785,688 shares issued and 11,962,516 shares outstanding at July 1, 2017 and 14,716,940 shares issued and 11,953,080 shares outstanding at December 31, 2016	739	736
Additional paid-in capital	116,191	115,607
Accumulated other comprehensive loss	(2,581)	(2,578)
Accumulated deficit	(67,149)	(67,888)
Treasury stock (2,823,172 shares at July 1, 2017 and 2,763,860 shares at December 31, 2016, at cost)	(14,987)	(14,622)
Stockholders' equity	32,213	31,255
Total liabilities and stockholders' equity	\$65,626	\$69,831

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Thirteen and Twenty-Six Week Periods Ended July 1, 2017 and July 2, 2016

(Unaudited)

(In thousands, except per share amounts)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Revenues	\$45,512	\$45,379	\$91,853	\$92,555
Cost of services	33,399	33,275	67,988	67,775
Gross profit	12,113	12,104	23,865	24,780
Operating costs and expenses				
Selling, general and administrative	10,075	10,177	20,392	20,642
Depreciation and amortization	410	399	807	789
Change in contingent consideration	781	-	781	-
	11,266	10,576	21,980	21,431
Operating income	847	1,528	1,885	3,349
Other (expense) income				
Interest expense and other, net	(134)	(96)	(272)	(308)
Gain on foreign currency transactions	53	11	55	23
	(81)	(85)	(217)	(285)
Income before income taxes	766	1,443	1,668	3,064
Income tax expense	577	580	929	1,200
Net income	\$189	\$863	\$739	\$1,864
Basic and diluted net earnings per share	\$0.02	\$0.07	\$0.06	\$0.15

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Twenty-Six Week Periods Ended July 1, 2017 and July 2, 2016
(Unaudited)
(In thousands)

	July 1, 2017	July 2, 2016
Net income	\$739	\$1,864
Other comprehensive (loss) income	(3)	481
Comprehensive income	\$736	\$2,345

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Twenty-Six Week Period Ended July 1, 2017
(Unaudited)
(In thousands, except share amounts)

	Common Stock Issued Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total
Balance, December 31, 2016	14,716,940	\$736	\$115,607	(\$2,578)(67,888	2,763,860	(\$14,622)	\$31,255
Issuance of stock under employee stock purchase plan	43,748	2	190	-	-	-	-	192
Translation adjustment	-	-	-	(3)-	-	-	(3)
Share-based compensation expense	-	-	395	-	-	-	-	395
Issuance of stock upon vesting of restricted stock awards	25,000	1	(1)-	-	-	-	-
Common stock repurchase	-	-	-	-	-	59,312	(365)(365)
Net income	-	-	-	-	739	-	-	739
Balance, July 1, 2017	14,785,688	\$739	\$116,191	(\$2,581)(67,149	2,823,172	(\$14,987)	\$32,213

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Twenty-Six Week Periods Ended July 1, 2017 and July 2, 2016
(Unaudited)
(In thousands)

	July 1, 2017	July 2, 2016
Cash flows from operating activities:		
Net income	\$739	\$1,864
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	807	789
Change in contingent consideration	781	-
Share-based compensation expense	395	405
Provision for losses on accounts receivable	428	(46)
Deferred income tax expense	196	219
Changes in assets and liabilities:		
Accounts receivable	1,607	3,163
Prepaid expenses and other current assets	251	1,606
Net of transit accounts receivable and payable	(272)	1,684
Accounts payable and accrued expenses	(536)	(1,947)
Accrued payroll and related costs	468	(836)
Income taxes payable	466	780
Total adjustments	4,591	5,817
Net cash provided by operating activities	5,330	7,681
Cash flows from investing activities:		
Property and equipment acquired	(552)	(657)
Decrease in deposits	1	15
Net cash used in investing activities	(551)	(642)
Cash flows from financing activities:		
Borrowings under line of credit	42,569	39,818
Repayments under line of credit	(46,787)	(45,928)
Issuance of stock for employee stock purchase plan	192	188
Common stock repurchases	(365)	(1,131)
Contingent consideration paid	(258)	(713)
Net cash used in financing activities	(4,649)	(7,766)
Effect of exchange rate changes on cash and cash equivalents	(18)	(24)
Increase (decrease) in cash and cash equivalents	112	(751)
Cash and cash equivalents at beginning of period	279	985
Cash and cash equivalents at end of period	\$391	\$234

Supplemental cash flow information:

Cash paid for:

Interest	\$236	\$334
Income taxes	\$231	\$82

Non-cash investing activities:

Non-cash consideration for business acquisition	\$133	\$ -
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Non-cash financing activities:

Vesting of restricted stock units	\$117	\$ -
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The accompanying notes are an integral part of these consolidated financial statements.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts, unless otherwise indicated)

1. Basis of Presentation

The accompanying consolidated interim financial statements of RCM Technologies, Inc. and subsidiaries ("RCM" or the "Company") are unaudited. The year-end consolidated balance sheet was derived from audited statements but does not include all disclosures required by accounting principles generally accepted in the United States. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the Company's consolidated financial statements and the notes thereto for the year ended December 31, 2016 included in the Company's Annual Report Form 10-K for such period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

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

Results for the thirteen and twenty-six week period ended July 1, 2017 are not necessarily indicative of results that may be expected for the full year.

2. Fiscal Year

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal year ended December 31, 2016 was a 52-week reporting year. The second fiscal quarters of 2017 and 2016 ended on the following dates, respectively:

	Period Ended	Weeks in Quarter	Weeks in Year to Date
	July 1, 2017	Thirteen	Twenty-Six
	July 2, 2016	Thirteen	Twenty-Six

3. Use of Estimates and Uncertainties

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

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

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

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts, unless otherwise indicated)

3. Use of Estimates and Uncertainties (Continued)

Fair Value of Financial Instruments

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

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

The Company's accounts receivable are comprised as follows:

	July 1, 2017	December 31, 2016
Billed	\$33,075	\$34,463
Accrued and unbilled	5,688	6,894
Work-in-progress	5,885	5,215
Allowance for sales discounts and doubtful accounts	(1,496)	(1,402)
Accounts receivable, net	\$43,152	\$45,170

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

From time to time, the Company's Engineering segment enters into agreements to provide, among other things, construction management and engineering services. Pursuant to these agreements, the Company a) may engage subcontractors to provide construction or other services; b) typically earns a fixed percentage of the total project value; and c) assumes no ownership or risks of inventory. Under the terms of the agreements, the Company is typically not required to pay the subcontractor until after the corresponding payment from the Company's end-client is received. Upon invoicing the end-client on behalf of the subcontractor or staffing agency the Company records this amount simultaneously as both a "transit account receivable" and "transit account payable" as the amount when paid to the Company is due to and generally paid to the subcontractor within a few days. The Company typically does not pay a given transit account payable until the related transit account receivable is collected. The Company's transit accounts payable generally exceeds the Company's transit accounts receivable but absolute amounts and spreads fluctuate significantly from quarter to quarter in the normal course of business. The transit accounts receivable was \$2.4 million and related transit accounts payable was \$4.6 million, for a net liability of \$2.2 million, as of July 1, 2017. The transit accounts receivable was \$4.3 million and related transit accounts payable was \$6.8 million, for a net liability of \$2.5 million, as of December 31, 2016.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts, unless otherwise indicated)

5. Property and Equipment

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

Property and equipment are comprised of the following:

	July 1, December 31,	
	2017	2016
Equipment and furniture	\$878	\$1,045
Computers and systems	5,847	5,521
Leasehold improvements	830	804
	7,555	7,370
Less: accumulated depreciation and amortization	3,726	3,318
Property and equipment, net	\$3,829	\$4,052

The Company periodically writes off fully depreciated and amortized assets. The Company wrote off fully depreciated and amortized assets of \$367 and \$2,268 during the twenty-six week periods ended July 1, 2017 and July 2, 2016, respectively. Depreciation expense for the twenty-six week periods ended July 1, 2017 and July 2, 2016 was \$774 and \$744, respectively.

6. Acquisitions

The Company has acquired numerous companies throughout its history and those acquisitions have generally included significant future contingent consideration. The Company gives no assurance that it will make acquisitions in the future and if they do make acquisitions gives no assurance that such acquisitions will be successful.

Future Contingent Payments

As of July 1, 2017, the Company had five active acquisition agreements whereby additional contingent consideration may be earned by the former shareholders: 1) effective July 1, 2012 the Company acquired certain assets of BGA, LLC ("BGA"); 2) effective August 1, 2014 the Company acquired all of the stock of Point Comm, Inc. ("PCI"); 3) effective July 5, 2015, the Company acquired certain assets of Substation Design Services, LLC ("SDS"); 4) effective December 31, 2016, the Company acquired certain assets of Allied Health Professionals, LLC ("AHP") and 5) effective April 16, 2017 the Company acquired certain assets of R.A.F. Services, Inc. ("RAF"). The Company estimates future contingent payments at July 1, 2017 as follows:

Fiscal Year	Total
December 30, 2017 (after July 1, 2017)	\$1,525
December 30, 2018	240
Estimated future contingent consideration payments	\$1,765

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts, unless otherwise indicated)

6. Acquisitions (Continued)

Estimates of future contingent payments are subject to significant judgment and actual payments may materially differ from estimates. Potential future contingent payments to be made to all active acquisitions are capped at a cumulative maximum of \$3.2 million. The Company estimates future contingent consideration in payments based on forecasted performance and recorded at the net present value of those expected payments as of July 1, 2017. The measurement is based on significant inputs that are not observable in the market, which "Fair Value Measurements and Disclosures" (ASU Topic 820-10-35) refers to as Level 3 inputs.

The Company paid \$0.3 and \$0.7 million in contingent consideration during the twenty-six week periods ended July 1, 2017 and July 2, 2016, respectively.

AHP

Effective December 31, 2016, the Company acquired the business operations of Allied Health Professionals, LLC ("AHP"). AHP was a Chicago area healthcare staffing company providing physical therapists, occupational therapists and speech language pathologists to hospitals, rehabilitation centers, schools and outpatient programs. The Company expects the AHP acquisition to complement its Chicago area operations which formerly provided primarily nurses to the Chicago Public School system. AHP will add new clients and expand the Company's service offerings in the Chicago area. The purchase price for AHP was \$695, all of which was allocated to goodwill, payable as follows: 1) cash of \$275 paid in January 2017; 2) an unsecured note payable of \$280 to be paid in quarterly installments through October 2018; and 3) maximum contingent consideration of \$140 tied to certain gross profit targets and, if earned, payable in 2018.

RAF

Effective April 16, 2017, the Company acquired the business operations of RAF Services, Inc. ("RAF"). RAF has been in business since 1991 as a multi-disciplined engineering and consulting and design company headquartered on Long Island. The firm has been providing Engineering, Design, Permitting, Inspection and Construction Management services to the utility, industrial, commercial, and property management industries. RAF specializes in turnkey above ground tank inspection, repair and cleaning services, as well as concrete, steel, masonry, and roofing routine maintenance inspection and design. The purchase price for RAF was \$133, all of which was allocated to goodwill as follows: 1) assumed liabilities of \$123; 2) estimated contingent consideration of \$10, expected to be paid in fiscal 2018.

7. Goodwill

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

There were no changes in the carrying amount of goodwill for the twenty-six week period ended July 1, 2017.

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

7. Goodwill (Continued)

	Engineering	Information Technology	Specialty Health Care	Total
Balance as of December 31, 2016	\$4,411	\$5,516	\$2,398	\$12,325
Goodwill recorded, RAF	133	-	-	133
Balance as of July 1, 2017	\$4,544	\$5,516	\$2,398	\$12,458

8. Intangible Assets

The Company evaluates long-lived assets and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the Company determines that it is probable that undiscounted future cash flows will not be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. Assets to be disposed of by sale, if any, are reported at the lower of the carrying amount or fair value less cost to sell. The Company's intangible assets consist of customer relationships and non-compete agreements. During all periods presented, the Company determined that no impairment of intangible assets exists.

The following table reflects the activity for net intangible assets, excluding goodwill which is substantially attributable to the Company's Engineering segment, for the periods presented:

	Twenty-Six Weeks Ended	
	July 1, 2017	July 2, 2016
Beginning balance	\$171	\$252
Amortization of intangibles during the twenty-six week period presented	34	46
Ending balance	\$137	\$206

9. Line of Credit

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania which provides for a \$35 million revolving credit facility and includes a sub-limit of \$5 million for letters of credit (the "Revolving Credit Facility") and expires December 11, 2019. The Revolving Credit Facility has been amended several times, most recently pursuant to the Seventh Amendment entered into on March 8, 2017 when the Company was granted a waiver that expressly excludes \$1.3 million of certain legal settlement and office closure expenses in the calculation of the Company's loan covenants. 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, typically borrowed in fixed 30-day increments or (ii) the agent bank's prime rate generally borrowed over shorter durations. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense. The effective

interest rate, including unused line fees, for the twenty-six week period ended July 1, 2017 was 2.5%.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts, unless otherwise indicated)

9. Line of Credit (Continued)

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as a covenant that restricts on the Company's ability to borrow in order to pay dividends. As of July 1, 2017, the Company was in compliance with all covenants contained in its Revolving Credit Facility.

Borrowings under the line of credit as of July 1, 2017 and December 31, 2016 were \$10.1 million and \$14.3 million, respectively. At July 1, 2017 and December 31, 2016 there were letters of credit outstanding for \$0.8 million. At July 1, 2017, the Company had availability for additional borrowings under the Revolving Credit Facility of \$24.1 million.

10. Per Share Data

The Company uses the treasury stock method to calculate the weighted-average shares used for diluted earnings per share. The number of common shares used to calculate basic and diluted earnings per share for the thirteen and twenty-six week periods ended July 1, 2017 and July 2, 2016 was determined as follows:

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Basic weighted average shares outstanding	11,961,967	12,363,811	11,954,310	12,423,179
Dilutive effect of outstanding stock options and restricted stock awards	107,321	101,924	104,052	84,963
Weighted average dilutive shares outstanding	12,069,288	12,465,735	12,058,362	12,508,142

There were 40,000 and 42,500 absolute anti-dilutive shares not included in the calculation of common stock equivalents for the twenty-six week periods ended July 1, 2017 and July 2, 2016, respectively. These were determined to be anti-dilutive because the exercise prices of these shares for the periods were higher than the average market price of the Company's common stock for the same periods.

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

	July 1, 2017	December 31, 2016
Exercise of options outstanding	42,000	42,000
Time-based restricted stock units outstanding	187,734	197,734
Performance-based restricted stock units outstanding	400,000	200,000
Future grants of options or shares	404,266	619,266
Shares reserved for employee stock purchase plan	224,463	268,211

Total	1,258,463	1,327,211
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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts, unless otherwise indicated)

11. Share-Based Compensation

At July 1, 2017, the Company had four share-based employee compensation plans. The Company measures the fair value of share-based awards, if and when granted, based on the Black-Scholes method and using the closing market price of the Company's common stock on the date of grant. Awards vest over periods ranging from one to three years and expire within 10 years of issuance. Share-based compensation expense related to time-based awards is amortized in accordance with applicable vesting periods using the straight-line method. The Company vests performance-based awards only when the performance metrics are likely to be achieved and the associated awards are therefore likely to vest. Performance-based share awards that are likely to vest are also expensed on a straight-line basis over the vesting period but may vest on a retroactive basis or be reversed, depending on when it is determined that they are likely to vest, or in the case of a reversal when they are later determined to be unlikely to vest.

Share-based compensation expense of \$395 and \$405 was recognized for the twenty-six week periods ended July 1, 2017 and July 2, 2016, respectively. Share based compensation for the twenty-six week period ended July 1, 2017 did not include any expense associated with performance-based restricted stock units since they were, as of July 1, 2017, determined to be unlikely to vest.

As of July 1, 2017, the Company had approximately \$0.3 million of total unrecognized compensation cost related to all time-based non-vested share-based awards granted under the Company's various share-based plans, which the Company expects to recognize over approximately a two-year period. These amounts do not include a) performance-based restricted stock units, b) the cost of any additional share-based awards that may be granted in future periods or c) the impact of any potential changes in the Company's forfeiture rate.

Incentive Share-Based Plans

2000 Employee Stock Incentive Plan (the 2000 Plan)

The 2000 Plan, approved by the Company's stockholders in April 2001, provided for the issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. As of July 1, 2017, under the 2000 Plan, options to purchase 25,000 shares of common stock granted under the 2000 Plan were outstanding. The 2000 Plan has expired therefore no shares are available for grant thereunder.

2007 Omnibus Equity Compensation Plan (the 2007 Plan)

The 2007 Plan, approved by the Company's stockholders in June 2007, provides for the issuance of up to 700,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. As of July 1, 2017, under the 2007 Plan, options to purchase 17,000 shares of common stock were outstanding. The 2007 Plan has expired therefore no shares are available for grant thereunder.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts, unless otherwise indicated)

11. Share-Based Compensation (Continued)

Incentive Share-Based Plans (Continued)

2014 Omnibus Equity Compensation Plan (the 2014 Plan)

The 2014 Plan, approved by the Company's stockholders in December 2014, provides for the issuance of up to 625,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. In fiscal 2016, the Company amended the 2014 Plan with shareholder approval to increase the aggregate number of shares of stock reserved for issuance under the Plan by an additional 500,000 shares so that the total number of shares of stock reserved for issuance under the Plan is 1,125,000 shares. The expiration date of the Plan is December 1, 2026. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of July 1, 2017, under the 2014 Plan, 587,734 restricted stock units were outstanding, including 400,000 performance-based restricted stock units the Company currently deems unlikely to vest, and 404,266 shares were available for awards thereunder.

Employee Stock Purchase Plan

The Company implemented the 2001 Employee Stock Purchase Plan (the "Purchase Plan") with shareholder approval, effective January 1, 2001. Under the Purchase Plan, employees meeting certain specific employment qualifications are eligible to participate and can purchase shares of common stock semi-annually through payroll deductions at the lower of 85% of the fair market value of the stock at the commencement or end of the offering period. The purchase plan permits eligible employees to purchase shares of common stock through payroll deductions for up to 10% of qualified compensation.

In fiscal 2015, the Company amended the Purchase Plan with shareholder approval to increase the aggregate number of shares of stock reserved for issuance or transfer under the Plan by an additional 300,000 shares so that the total number of shares of stock reserved for issuance or transfer under the Plan shall be 1,100,000 shares and to extend the expiration date of the Plan to December 31, 2025.

The Company has two offering periods in the Purchase Plan coinciding with the Company's first two fiscal quarters and the last two fiscal quarters. Actual shares are issued on the first business day of the subsequent offering period for the prior offering period payroll deductions. The number of shares issued at the beginning of the current period (on January 2, 2017) was 43,748. As of July 1, 2017, there were 224,463 shares available for issuance under the Purchase Plan.

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

11. Share-Based Compensation (Continued)

Stock Option Awards

There were no options granted during both twenty-six week periods ended July 1, 2017 and July 2, 2016. Activity regarding outstanding options for the twenty-six week period ended July 1, 2017 is as follows:

	All Stock Options Outstanding	
	Shares	Weighted Average Exercise Price
Options outstanding as of December 31, 2016	42,000	\$8.27
Options granted	-	
Options exercised	-	
Options forfeited/cancelled	-	
Options outstanding as of July 1, 2017	42,000	\$8.27
Options outstanding price range at July 1, 2017	\$5.27 - \$9.81	
Options exercisable as of July 1, 2017	42,000	
Intrinsic value per share of outstanding stock options as of July 1, 2017	\$0	

As of July 1, 2017, the Company had approximately \$0 of total unrecognized compensation cost related to all non-vested stock option awards.

Time-Based Restricted Stock Units

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

To date, the Company has only issued time-based restricted stock units under the 2007 and 2014 Plans. The following summarizes the activity in the time-based restricted stock units under the 2007 and 2014 Plans during the twenty-six week period ended July 1, 2017:

	Number of Time-Based Restricted Stock Units	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at December 31, 2016	197,734	\$7.33

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Granted	15,000	\$4.97
Vested	25,000	\$5.41
Forfeited or expired	-	-
Outstanding non-vested at July 1, 2017	187,734	\$7.39

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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11. Share-Based Compensation (Continued)

Time-Based Restricted Stock Units (Continued)

Based on the closing price of the Company's common stock of \$5.05 per share on June 30, 2017 (the last trading day prior to July 1, 2017), the intrinsic value of the time-based non-vested restricted stock units at July 1, 2017 was approximately \$0.9 million. As of July 1, 2017, there was approximately \$0.3 million of total unrecognized compensation cost related to time-based restricted stock units, which is expected to be recognized over the vesting period of the restricted stock units.

Performance Based Restricted Stock Units

From time-to-time the Company issues performance-based restricted stock units to its executives. Performance-based restricted stock units are typically vested based on certain multi-year performance metrics as determined by the Board of Directors Compensation Committee. These performance-based restricted stock units typically include dividend accrual equivalents, which means that any dividends paid by the Company during the vesting period become due and payable after the vesting period on any stock units that actually vest, if any. Dividends for these grants are accrued on the dividend payment dates and included in accounts payable and accrued expenses on the accompanying consolidated balance sheet. Dividends for performance-based restricted stock units that ultimately do not vest are forfeited.

To date, the Company has only issued performance-based restricted stock units under the 2014 Plan. The following summarizes the activity in the performance-based restricted stock units during 2017:

	Number of Performance-Based Restricted Stock Units	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at December 31, 2016	200,000	\$5.36
Granted	200,000	\$4.85
Vested	-	-
Forfeited or expired	-	-
Outstanding non-vested at July 1, 2017	400,000	\$5.11

As of July 1, 2017, the Company considers 400,000 of the performance-based restricted stock unit metrics unlikely to be achieved, thus no performance condition is probable of achievement and no compensation cost has been recognized on the performance-based restricted stock units. The Company will reassess at each reporting date whether achievement of any performance condition is probable and would begin recognizing compensation cost if and when achievement of the performance condition becomes probable. The Company will then recognize the appropriate expense cumulatively in the year performance becomes probable and recognize the remaining compensation cost over the remaining requisite service period.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts, unless otherwise indicated)

12. Treasury Stock Transactions

On October 28, 2013, the Board of Directors authorized a repurchase program to purchase up to \$5.0 million of outstanding shares of common stock at the prevailing market prices, from time to time over the subsequent 12-month period. On September 30, 2014, the Board extended this repurchase program through October 31, 2015. On September 11, 2015, the Board extended this repurchase program through December 31, 2016. On August 9, 2016, the Board authorized an additional \$5.0 million to the repurchase program and extended this repurchase program through December 31, 2017. During the twenty-six week periods ended July 1, 2017 and July 2, 2016, the Company purchased 59,312 shares at an average price of \$6.16 per share and 214,578 shares at an average price of \$5.27, respectively. As of July 1, 2017, the Company has \$2.5 million available for future treasury stock purchases.

13. New Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," to clarify the principles used to recognize revenue for all entities. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations," which further clarifies the implementation guidance on principal versus agent considerations," and in April 2016, the FASB issued ASU 2016-10, "Revenue from contracts with customers (Topic 606): Identifying performance obligations and licensing," an update on identifying performance obligations and accounting for licenses of intellectual property. Additionally, in May 2016, the FASB issued ASU 2016-12, "Revenue from contracts with customers (Topic 606): Narrow-scope improvements and practical expedients," which includes amendments for enhanced clarification of the guidance. In December 2016, the FASB issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," which continues the FASB's ongoing project to issue technical corrections and improvements to clarify the codification or correct unintended application of guidance. From the results of the preliminary review, the Company believes the impact of adopting the updated standard will not have a material impact on the Company. Over 90% of the Company's revenues are generated through time and material invoicing. The clients are invoiced after the hours have been worked and/or the material has been delivered and accepted. The remaining revenue relates to long term projects. The Company recognizes revenue on these projects using the percentage of completion method. The Company reviewed the five-step process for revenue recognition and believes its current method of recognizing revenue on these long term projects would not materially change upon adoption due to the value provided to the customer during the project.

The guidance is effective for fiscal years beginning on or after December 15, 2017 including interim periods within those fiscal years and early adoption is permitted. We are continuing to evaluate the effect the adoption will have on our consolidated financial statements. The Company expects to adopt this update in its fiscal 2018 first quarter using the modified retrospective approach.

In February 2016 the FASB issued ASU No. 2016-02, Leases (Topic 842), which amended guidance for lease arrangements in order to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. The revised guidance seeks to achieve this objective by requiring reporting entities to recognize lease assets and lease liabilities on the balance sheet for substantially all lease arrangements. The guidance, which is required to be adopted in the first quarter of 2019, will be applied on a modified retrospective basis beginning with the earliest period presented. Early adoption is permitted. The Company is evaluating the impact of adopting this guidance on its consolidated financial statements.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts, unless otherwise indicated)

13. New Accounting Standards (Continued)

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Additionally, In May of 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718). ASU 2017-09 clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under ASC 718. Early adoption is permitted. The Company adopted ASU 2016-09 in its fiscal 2017 first quarter. It did not have a material impact. ASU 2017-09 is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted. The Company is evaluating the impact that adoption of ASU 2017-10 on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). The new standard amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 clarifies how certain cash receipts and payments should be presented in the statement of cash flows. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently evaluating the potential impact of adoption of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations" (Topic 805) to clarify the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. Early adoption is permitted under certain circumstances. The Company is evaluating the impact that adoption of this guidance will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other" (Topic 350). The objective of Phase 1 of the project, which resulted in this Update, is to simplify the testing of goodwill for impairment by eliminating Step 2 from the goodwill impairment test. The guidance is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact that adoption of this guidance will have on its consolidated financial statements.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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14. Segment Information

The Company follows "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for companies to report information about operating segments, geographic areas and major customers. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies (see Note 1 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2016).

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

Thirteen Week Period Ended July 1, 2017	Engineering	Information Technology	Specialty Health Care	Corporate	Total
Revenue	\$20,586	\$8,557	\$16,369	\$ -	\$45,512
Cost of services	14,889	6,200	12,310	-	33,999
Gross profit	5,697	2,357	4,059	-	12,113
Selling, general and administrative	4,184	2,144	3,747	-	10,075
Change in contingent consideration -	-	-	-	781	781
Depreciation and amortization	282	40	88	-	410
Operating income (loss)	\$1,231	\$173	\$224	(\$781)	(\$847)
Total assets as of July 1, 2017	\$34,050	\$11,260	\$16,742	\$3,574	\$65,626
Capital expenditures	\$40	-	\$415	\$5	\$460

Thirteen Week Period Ended July 2, 2016	Engineering	Information Technology	Specialty Health Care	Corporate	Total
Revenue	\$18,742	\$10,957	\$15,680	\$ -	\$45,379
Cost of services	13,715	8,172	11,388	-	33,275
Gross profit	5,027	2,785	4,292	-	12,104
Selling, general and administrative	3,944	2,698	3,535	-	10,177
Depreciation and amortization	284	48	67	-	399

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Operating income	\$799	\$39	\$690	\$ -	\$1,528
Total assets as of July 2, 2016	\$35,768	\$13,250	\$17,525	\$4,198	\$70,741
Capital expenditures	\$174	\$24	\$53	\$12	\$263

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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(In thousands, except share and per share amounts, unless otherwise indicated)

14. Segment Information (Continued)

Twenty-Six Week Period Ended July 1, 2017	Engineering	Information Technology	Specialty Health Care	Corporate	Total
Revenue	\$39,810	\$17,167	\$34,876	\$ -	\$91,853
Cost of services	29,076	12,657	26,255	-	67,988
Gross profit	10,734	4,510	8,621	-	23,865
Selling, general and administrative	8,219	4,497	7,676	-	20,392
Change in contingent consideration	-	-	-	781	781
Depreciation and amortization	566	81	160	-	807
Operating income (loss)	\$1,949	(\$68)	\$785	(\$781)	\$1,885
Total assets as of July 1, 2017	\$34,050	\$11,260	\$16,742	\$3,574	\$65,626
Capital expenditures	\$109	-	\$415	\$28	\$552
Twenty-Six Week Period Ended July 2, 2016	Engineering	Information Technology	Specialty Health Care	Corporate	Total
Revenue	\$37,427	\$23,697	\$31,431	\$ -	\$92,555
Cost of services	27,568	17,120	23,087	-	67,775
Gross profit	9,859	6,577	8,344	-	24,780
Selling, general and administrative	7,760	5,841	7,041	-	20,642
Depreciation and amortization	560	100	129	-	789
Operating income	\$1,539	\$636	\$1,174	\$ -	\$3,349
Total assets as of July 2, 2016	\$35,768	\$13,250	\$17,525	\$4,198	\$70,741
Capital expenditures	\$455	\$48	\$128	\$26	\$657

The Company derives a majority of its revenue from offices in the United States. Revenues reported for each operating segment are all from external customers. The Company is domiciled in the United States and its segments operate in the United States, Canada and Puerto Rico. Revenues by geographic area for the thirteen and twenty-six

week periods ended July 1, 2017 and July 2, 2016 are as follows:

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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 (In thousands, except share and per share amounts, unless otherwise indicated)

14. Segment Information (Continued)

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Revenues				
U. S.	\$37,158	\$37,524	\$75,876	\$77,307
Canada	7,222	6,395	13,717	12,604
Puerto Rico	1,132	1,460	2,260	2,644
	\$45,512	\$45,379	\$91,853	\$92,555

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

	July 1, 2017	December 31, 2016
Total assets		
U. S.	\$48,353	\$53,842
Canada	15,204	13,953
Puerto Rico	2,069	2,036
	\$65,626	\$69,831

15. Income Taxes

The projected fiscal 2017 effective income tax rates as of July 1, 2017 and applied to income before any discrete permanent difference for the twenty-six week period ended July 1, 2017 are approximately 41.6% and 26.5% in the United States and Canada, respectively, and yielded a consolidated effective income tax rate before any discrete permanent difference of approximately 37.9% for the twenty-six week period ended July 1, 2017. For the comparable prior year period estimated income tax rates were 41.6% and 26.5% in the United States and Canada, respectively, and yielded a consolidated effective income tax rate of approximately 39.2% for the twenty-six week period ended July 2, 2016. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company. The Company experienced a discrete permanent difference of \$0.8 million because of increases to contingent consideration. The Company's effective income tax rate after including this discrete permanent difference was 55.7% for the twenty-six week period ended July 1, 2017.

16. Contingencies

From time to time, the Company is a defendant or plaintiff in various legal actions that arise in the normal course of business. As such, the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of losses and possible recoveries. The Company may not be covered by insurance as it pertains to some or all of these matters. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. Once established, a provision may change in the future due to new developments or changes in circumstances, and could increase or decrease the Company's earnings in the period that the changes are made. Asserted claims in these matters sought approximately \$1.5 million in damages as of both July 1, 2017 and December 31, 2016. As of both July 1,

2017 and December 31, 2016, the Company accrued \$0.5 million for such liabilities.

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

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

Private Securities Litigation Reform Act Safe Harbor Statement

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

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

Overview

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

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

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

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

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

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

Costs of services consist primarily of salaries and compensation-related expenses for billable consultants and employees, including payroll taxes, employee benefits and insurance. Selling, general and administrative expenses consist primarily of salaries and benefits of personnel responsible for business development, recruiting, operating activities, and training, and include corporate overhead expenses. Corporate overhead expenses relate to salaries and

benefits of personnel responsible for corporate activities, including the Company's corporate marketing, administrative and financial reporting responsibilities and acquisition program. The Company records these expenses when incurred.

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

Critical Accounting Policies

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

Revenue Recognition

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

Project Services

The Company recognizes revenues in accordance with current revenue recognition standards under Accounting Standards Codification ("ASC") 605, Revenue Recognition, which clarifies application of U.S. generally accepted accounting principles to revenue transactions. Project services are generally provided on a cost-plus, fixed-fee or time-and-material basis. Typically, a customer will outsource a discrete project or activity and the Company assumes responsibility for the performance of such project or activity. The Company recognizes revenues and associated costs on a gross basis as services are provided to the customer and costs are incurred using its employees. The Company, from time to time, enters into contracts requiring the completion of specific deliverables. The Company may recognize revenues on these deliverables at the time the client accepts and approves the deliverables. In instances where project services are provided on a fixed-price basis and the contract will extend beyond a 12-month period, revenue is recorded in accordance with the terms of each contract. In some instances, revenue is billed at the time certain milestones are reached, as defined in the contract. Revenues under these arrangements are recognized as the costs on these contracts are incurred. Amounts invoiced in excess of revenues recognized are recorded as deferred revenue, included in accounts payable and accrued expenses on the accompanying balance sheets. In other instances, revenue is billed and recorded based upon contractual rates per hour (i.e., percentage of completion). In addition, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when earned. Some contracts also limit revenues and billings to specified maximum amounts. Provision for contract losses, if any, are made in the period such losses are determined. For contracts where there is a deliverable, the work is not complete on a specific deliverable and the revenue is not recognized, the costs are deferred. The associated costs are expensed when the related revenue is recognized.

Consulting and Staffing Services

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

In certain cases, the Company may utilize other companies and their employees to fulfill customer requirements. In these cases, the Company receives an administrative fee for arranging for, billing for, and collecting the billings

related to these companies. The customer is typically responsible for assessing the work of these companies who have responsibility for acceptability of their personnel to the customer. Under these circumstances, the Company's reported revenues are net of associated costs (effectively recognizing the net administrative fee only).

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

Revenue Recognition (Continued)

Transit Accounts Receivable and Transit Accounts Payable

From time to time, the Company's Engineering segment enters into agreements to provide, among other things, construction management and engineering services. In certain circumstances, the Company may acquire equipment as a purchasing agent for the client for a fee. Pursuant to these agreements, the Company: a) may engage subcontractors to provide construction or other services or contracts with manufacturers on behalf of the Company's clients to procure equipment or fixtures; b) typically earns a fixed percentage of the total project value or a negotiated mark-up on subcontractor or procurement charges as a fee; and c) assumes no ownership or risks of inventory. In such situations, the Company acts as an agent under the provisions of "Overall Considerations of Reporting Revenue Gross as a Principal versus Net as an Agent" and therefore recognizing revenue on a "net-basis." The Company records revenue on a "net" basis on relevant engineering and construction management projects, which require subcontractor/procurement costs or transit costs. In those situations, the Company charges the client a negotiated fee, which is reported as net revenue when earned. During the twenty-six week period ended July 1, 2017, total gross billings, including both transit cost billings and the Company's earned fees, was \$20.1 million, for which the Company recognized \$13.2 million of its net fee as revenue. During the twenty-six week period ended July 2, 2016, total gross billings, including both transit cost billings and the Company's earned fees, was \$23.5 million, for which the Company recognized \$14.6 million of its net fee as revenue.

Under the terms of the agreements, the Company is typically not required to pay the subcontractor until after the corresponding payment from the Company's end-client is received. Upon invoicing the end-client on behalf of the subcontractor or staffing agency the Company records this amount simultaneously as both a "transit account receivable" and "transit account payable" as the amount when paid to the Company is due to and generally paid to the subcontractor within a few days. The Company typically does not pay a given transit account payable until the related transit account receivable is collected. The Company's transit accounts payable generally exceeds the Company's transit accounts receivable but absolute amounts and spreads fluctuate significantly from quarter to quarter in the normal course of business. The transit accounts receivable was \$2.4 million and related transit accounts payable was \$4.6 million, for a net liability of \$2.2 million, as of July 1, 2017.

Permanent Placement Services

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company's accounts receivable are primarily due from trade customers. Credit is extended based on evaluation of customers' financial condition and, generally, collateral is not required. Accounts receivable payment terms vary and are stated in the financial statements at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's

previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables previously written off are credited to bad debt expense.

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

Goodwill

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

Long-Lived and Intangible Assets

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

Accounting for Stock Options and Restricted Stock Units

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

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

Insurance Liabilities

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

Accounting for Income Taxes

In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance and estimates of future earnings. As of July 1, 2017, the Company had a net domestic long term deferred tax net liability of \$0.3 million and a foreign long-term deferred tax net liability of \$0.2 million. The domestic long term deferred tax net liability primarily represents the tax effect of accrued expenses which will be deductible for tax purposes within a twelve month period and the effect of temporary differences for the GAAP versus tax amortization of intangibles arising from acquisitions made in prior periods. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

The Company conducts its operations in multiple tax jurisdictions in the United States, Canada and Puerto Rico. The Company and its subsidiaries file a consolidated U.S. Federal income tax return and file in various states. The Company's federal income tax returns have been examined through 2010. The Internal Revenue Service is currently examining fiscal tax years 2011, 2012, 2013 and 2015. The State of New Jersey is currently examining fiscal tax years 2009 through 2012. Except for New Jersey and other limited exceptions, the Company is no longer subject to audits by state and local tax authorities for tax years prior to 2010. The Company is no longer subject to audit in Canada for the tax years prior to tax year 2012. The Company is no longer subject to audit in Puerto Rico for the tax years prior to tax year 2006.

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.

There were no changes to unrecognized tax benefits during both twenty-six week periods presented.

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.

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

Forward-looking Information

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

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

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

Thirteen Week Period Ended July 1, 2017 Compared to Thirteen Week Period Ended July 2, 2016

A summary of operating results for the thirteen week periods ended July 1, 2017 and July 2, 2016 is as follows (in thousands):

	July 1, 2017		July 2, 2016	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	\$45,512	100.0	\$45,379	100.0
Cost of services	33,399	73.4	33,275	73.3
Gross profit	12,113	26.6	12,104	26.7
Selling, general and administrative	10,075	22.1	10,177	22.4
Change in contingent consideration	781	1.7	-	-
Depreciation and amortization	410	0.9	399	0.9
	11,266	24.7	10,576	23.3
Operating income	847	1.9	1,528	3.4
Interest expense, net and foreign currency transactions	(81)	(0.2)	(85)	(0.2)
Income before income taxes	766	1.7	1,443	3.2
Income tax expense	577	1.3	580	1.3
Net income	\$189	0.4	\$863	1.9

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarters ended July 1, 2017 and July 2, 2016 consisted of thirteen weeks each.

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

Thirteen Week Period Ended July 1, 2017 Compared to Thirteen Week Period Ended July 2, 2016 (Continued)

Revenues. Revenues increased 0.2%, or \$0.1 million, for the thirteen week period ended July 1, 2017 as compared to the thirteen week period ended July 2, 2016 (the "comparable prior year period"). Revenues increased \$1.8 million in the Engineering segment, decreased \$2.4 million in the Information Technology segment and increased \$0.7 million in the Specialty Health Care segment. See Segment Discussion for further information on revenue changes.

The Company has material operations in Canada, primarily from the Company's Engineering segment; this business is conducted primarily in Canadian dollars. Since the Company reports its consolidated results in U.S. dollars the consolidated results are subject to potentially material fluctuations as a result of changes in the Canadian dollar to U.S. dollar exchange rate (the "Exchange Rate"). For the thirteen week period ended July 1, 2017, the Company generated total revenues from its Canadian clients of \$7.2 million in U.S. dollars at an Exchange Rate of 74.4% as compared to \$6.4 million in U.S. dollars at an Exchange Rate of 77.6% for the prior year comparable period.

Cost of Services and Gross Profit. Cost of services increased 0.3%, or \$0.1 million, for the thirteen week period ended July 1, 2017 as compared to the comparable prior year period. Cost of services as a percentage of revenues for the thirteen week periods ended July 1, 2017 and July 2, 2016 was 73.4% and 73.3%, respectively. See Segment Discussion for further information regarding changes in cost of services and gross profit.

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses decreased 1.0%, or \$0.1 million, for the thirteen week period ended July 1, 2017 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 22.1% for the thirteen week period ended July 1, 2017 and 22.4% for the comparable prior year period. See Segment Discussion for further information on SGA expense changes.

Change in Contingent Consideration. The Company incurred charges of \$0.8 million for increases to contingent consideration for the thirteen week period ended July 1, 2017. The increase can be principally attributed to the PCI acquisition. Since the PCI acquisition was for stock in Canada the increase in purchase price is not tax deductible and is treated as a permanent difference. There was no change to contingent consideration for the thirteen week period ended July 2, 2016.

Other Expense, Net. Other expense, net consists of interest expense, unused line fees and amortized loan costs on the Company's loan agreement, net of interest income and gains and losses on foreign currency transactions. There were no material changes to other expense, net for the thirteen week period ended July 1, 2017 as compared to the prior comparable period.

Income Tax Expense. The Company recognized \$0.6 million of income tax expense for both the thirteen week period ended July 1, 2017 and for the comparable prior year period. The consolidated effective income tax rate for the current period was 75.3% as compared to 40.2% for the comparable prior year period. The thirteen week period ended July 1, 2017 is impacted by a discrete permanent difference due to the increase in contingent consideration of \$0.8 million. The projected fiscal 2017 income tax rates as of July 1, 2017 were approximately 41.6% and 26.5% in the United States and Canada, respectively. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company, particularly the ratio of Canadian pretax income versus U.S. pretax income. The consolidated effective income tax rate after eliminating this discrete permanent difference decreased for the thirteen week period ended July 1, 2017 to 37.3% as compared to 40.2% for the comparable prior year period because the Company's projected fiscal 2017 Canadian income before taxes is higher as a percentage of the total projected 2017 income before taxes as compared to the projected 2016 Canadian income before taxes as a

percentage of the total projected 2016 income before taxes at the same time in the comparable prior year period.

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

Thirteen Week Period Ended July 1, 2017 Compared to Thirteen Week Period Ended July 2, 2016 (Continued)

Segment Discussion

Engineering

Engineering revenues of \$20.6 million for the thirteen week period ended July 1, 2017 increased 9.8%, or \$1.8 million, as compared to the comparable prior year period. The increase was primarily due to increases in revenues of \$1.6 million from the Company's Energy Services Group and \$0.4 million from the Company's Canadian Power Systems Engineering Group, partially offset by a decrease of \$0.1 million from the Company's Aerospace Engineering Group. Gross profit increased 13.3%, or \$0.7 million, as compared to the comparable prior year period. Gross profit increased due to the increase in revenues and an increase in gross margin to 27.7% for the current period as compared to 26.8% for the comparable prior year period. The gross margin increase was primarily due to more favorable utilization of billable consultants on fixed price contracts as the Company naturally experiences variability in utilization from quarter to quarter. The Engineering segment operating income was \$1.2 million for the thirteen week period ended July 1, 2017 as compared to \$0.8 million for the comparable prior year period. The improvement in operating income was primarily driven by the increase in gross profit and was offset by an increase in SGA expense of \$0.2 million. The increase in SGA expense was primarily due to increased investment in selling costs and a higher allocation of corporate-generated SGA expense.

Information Technology

Information Technology revenues of \$8.6 million for the thirteen week period ended July 1, 2017 decreased 21.9%, or \$2.4 million, as compared to \$11.0 million for the comparable prior year period. The decrease was primarily from reductions in project revenues from several large clients that were not replaced. Gross profit of \$2.4 million for the thirteen week period ended July 1, 2017 decreased 15.4%, or \$0.4 million, as compared to \$2.8 million for the comparable prior year period. The decrease in gross profit was primarily due to the decrease in revenues, offset by an increase in gross profit margin. The Information Technology gross profit margin for the thirteen week period ended July 1, 2017 was 27.5% as compared to 25.4% for the comparable prior year period. Gross profit margin increased due to more favorable utilization in the Company's solutions business and a general focus on improving the Company's staffing gross margin. The Information Technology segment experienced operating income of \$0.2 million for the thirteen week period ended July 1, 2017 as compared to marginally positive operating income for the comparable prior year period. The increase in operating income was primarily due to a decrease in SGA expense of \$0.5 million, primarily due to lower selling costs associated with lower gross profit and a focus on reducing SGA expense.

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

Thirteen Week Period Ended July 1, 2017 Compared to Thirteen Week Period Ended July 2, 2016 (Continued)

Segment Discussion (Continued)

Specialty Health Care

Specialty Health Care revenues of \$16.4 million for the thirteen week period ended July 1, 2017 increased 4.4%, or \$0.7 million, as compared to the comparable prior year period. The primary reasons for the increase in the revenues for the Specialty Health Care segment were increases of \$0.7 million from the Chicago office, \$0.6 million from the Honolulu office and \$0.1 million from the travel nursing staffing group, partially offset by decreases of \$0.4 million from the permanent placement division and \$0.4 million from the Health Information Management ("HIM") practice. The Specialty Health Care segment's gross profit decreased by 5.4%, or \$0.2 million, to \$4.1 million for the thirteen week period ended July 1, 2017 as compared to \$4.3 million for the prior year period. The decrease in gross profit was primarily driven by a decrease in gross profit margin. The Specialty Health Care segment's gross profit margin for the thirteen week period ended July 1, 2017 was 24.8% as compared to 27.4% for the comparable prior year period. The decrease in gross profit margin was primarily driven by decreased high gross profit margin permanent placement revenues and decreases in gross profit margin from the travel nursing staffing group and HIM practice. Specialty Health Care experienced operating income of \$0.2 million for the thirteen week period ended July 1, 2017 as compared to operating income of \$0.7 million for the comparable prior year period, a decrease of \$0.5 million. Operating income decreased due to the decrease in gross profit and an increase in SGA expense. SGA expense increased by \$0.2 million, primarily due to the need to increase SGA infrastructure expense in order to support the increased activity levels associated with higher revenues in the current period and anticipated, continued increased activity for the balance of the Company's fiscal 2017.

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

Twenty-Six Week Period Ended July 1, 2017 Compared to Twenty-Six Week Period Ended July 2, 2016

A summary of operating results for the twenty-six week periods ended July 1, 2017 and July 2, 2016 is as follows (in thousands):

	July 1, 2017		July 2, 2016	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	\$91,853	100.0	\$92,555	100.0
Cost of services	67,988	74.0	67,775	73.2
Gross profit	23,865	26.0	24,780	26.8
Selling, general and administrative	20,392	22.2	20,642	22.3
Change in contingent consideration	781	0.8	-	-
Depreciation and amortization	807	0.9	789	0.9
	21,980	23.9	21,431	23.2
Operating income	1,885	2.1	3,349	3.6
Interest expense, net and foreign currency transactions	(217)	(0.3)	(285)	(0.2)
Income before income taxes	1,668	1.8	3,064	3.3
Income tax expense	929	1.0	1,200	1.3
Net income	\$739	0.8	\$1,864	2.0

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarters ended July 1, 2017 and July 2, 2016 consisted of twenty-six weeks each.

Revenues. Revenues decreased 0.8%, or \$0.7 million, for the twenty-six week period ended July 1, 2017 as compared to the twenty-six week period ended July 2, 2016 (the "comparable prior year period"). Revenues increased \$2.4 million in the Engineering segment, decreased \$6.5 million in the Information Technology segment and increased \$3.4 million in the Specialty Health Care segment. See Segment Discussion for further information on revenue changes.

The Company has material operations in Canada, primarily from the Company's Engineering segment; this business is conducted primarily in Canadian dollars. Since the Company reports its consolidated results in U.S. dollars the consolidated results are subject to potentially material fluctuations as a result of changes in the Canadian dollar to U.S. dollar exchange rate (the "Exchange Rate"). For the twenty-six week period ended July 1, 2017, the Company generated total revenues from its Canadian clients of \$13.7 million in U.S. dollars at an Exchange Rate of 74.9% as compared to \$12.6 million in U.S. dollars at an Exchange Rate of 75.3% for the prior year comparable period.

Cost of Services and Gross Profit. Cost of services increased 0.3%, or \$0.2 million, for the twenty-six week period ended July 1, 2017 as compared to the comparable prior year period. Cost of services as a percentage of revenues for the twenty-six week periods ended July 1, 2017 and July 2, 2016 was 74.0% and 73.2%, respectively. See Segment Discussion for further information regarding changes in cost of services and gross profit.

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

Twenty-Six Week Period Ended July 1, 2017 Compared to Twenty-Six Week Period Ended July 2, 2016 (Continued)

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses decreased 1.2%, or \$0.3 million, for the twenty-six week period ended July 1, 2017 as compared to the comparable prior year period. SGA expense decreased primarily due to the decrease in revenues and the Company's focus on reducing overall general and administrative costs. As a percentage of revenues, SGA expenses were 22.2% for the twenty-six week period ended July 1, 2017 and 22.3% for the comparable prior year period. See Segment Discussion for further information on SGA expense changes.

Change in Contingent Consideration. The Company incurred charges of \$0.8 million for increases to contingent consideration for the twenty-six week period ended July 1, 2017. The increase can be principally attributed to the PCI acquisition. Since the PCI acquisition was for stock in Canada the increase in purchase price is not tax deductible and is treated as a permanent difference. There was no change to contingent consideration for the twenty-six week period ended July 2, 2016.

Other Expense, Net. Other expense, net consists of interest expense, unused line fees and amortized loan costs on the Company's loan agreement, net of interest income, gains and losses on foreign currency transactions and any other non-operating items that may occur from time to time. There were no material changes to other expense, net for the twenty-six week period ended July 1, 2017 as compared to the prior comparable period.

Income Tax Expense. The Company recognized \$0.9 million of income tax expense for the twenty-six week period ended July 1, 2017 as compared to \$1.2 million for the comparable prior year period. The consolidated effective income tax rate for the current period was 55.7% as compared to 39.2% for the comparable prior year period. The twenty-six week period ended July 1, 2017 is impacted by a discrete permanent difference due to the increase in contingent consideration of \$0.8 million. The projected fiscal 2017 income tax rates as of July 1, 2017 were approximately 41.6% and 26.5% in the United States and Canada, respectively. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company, particularly the ratio of Canadian pretax income versus U.S. pretax income. The consolidated effective income tax rate after eliminating this discrete permanent difference decreased for the twenty-six week period ended July 1, 2017 to 37.9% as compared to 39.2% for the comparable prior year period because the Company's projected fiscal 2017 Canadian income before taxes is higher as a percentage of the total projected 2017 income before taxes as compared to the projected 2016 Canadian income before taxes as a percentage of the total projected 2016 income before taxes at the same time in the comparable prior year period.

Segment Discussion

Engineering

Engineering revenues of \$39.8 million for the twenty-six week period ended July 1, 2017 increased 6.4%, or \$2.4 million, as compared to the comparable prior year period. The increase was primarily due to increases in revenues of \$2.1 million from the Company's Energy Services Group and \$0.6 million from the Company's Canadian Power Systems Engineering Group, partially offset by a decrease of \$0.3 million from the Company's Aerospace Engineering Group. Gross profit increased 8.9%, or \$0.9 million, as compared to the comparable prior year period. Gross profit increased due to the increase in revenues and an increase in gross margin to 27.0% for the current period as compared to 26.3% for the comparable prior year period. The gross margin increase was primarily due to more favorable utilization of billable consultants on fixed price contracts as the Company naturally experiences variability in utilization from quarter to quarter. The Engineering segment operating income was \$1.9 million for the twenty-six week period ended July 1, 2017 as compared to \$1.5 million for the comparable prior year period. The improvement

in operating income was primarily driven by the increase in gross profit and was offset by an increase in SGA expense of \$0.5 million. The increase in SGA expense was primarily due to increased investment in selling costs and a higher allocation of corporate-generated SGA expense.

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2. OPERATIONS (CONTINUED)Twenty-Six Week Period Ended July 1, 2017 Compared to Twenty-Six Week Period Ended July 2, 2016 (Continued)
Segment Discussion (Continued)

Information Technology

Information Technology revenues of \$17.2 million for the twenty-six week period ended July 1, 2017 decreased 27.6%, or \$6.5 million, as compared to \$23.7 million for the comparable prior year period. The decrease was primarily from reductions in project revenues from several large clients that were not replaced. Gross profit of \$4.5 million for the twenty-six week period ended July 1, 2017 decreased 31.4%, or \$2.1 million, as compared to \$6.6 million for the comparable prior year period. The decrease in gross profit was primarily due to the decrease in revenues and a decrease in gross profit margin. The Information Technology gross profit margin for the twenty-six week period ended July 1, 2017 was 26.3% as compared to 27.8% for the comparable prior year period. Gross profit margin decreased because large project high-value, high-margin revenues decreased and thereby increased the portion of lower gross profit margin staffing-oriented revenues. The Information Technology segment experienced an operating loss of (\$0.1) million for the twenty-six week period ended July 1, 2017 as compared to operating income of \$0.6 million for the comparable prior year period. The decrease in operating income was due to the decrease in gross profit, partially offset by a decrease in SGA expense. SGA expense of \$4.5 million for the twenty-six week period ended July 1, 2017 decreased \$1.3 million as compared to \$5.8 million in the comparable prior year period, primarily due to lower selling costs associated with lower gross profit and a focus on reducing SGA expense.

Specialty Health Care

Specialty Health Care revenues of \$34.9 million for the twenty-six week period ended July 1, 2017 increased 11.0%, or \$3.4 million, as compared to the comparable prior year period. The primary reasons for the increase in the revenues for the Specialty Health Care segment were increases of \$1.5 million from the Chicago office, \$1.4 million from the travel nursing staffing group and \$1.3 million from the Honolulu office, partially offset by a decrease in revenues of \$0.5 million from the permanent placement group and \$0.2 million from the HIM practice. The Specialty Health Care segment's gross profit increased by 3.3%, or \$0.3 million, to \$8.6 million for the twenty-six week period ended July 1, 2017 as compared to \$8.3 million for the prior year period. The increase in gross profit was primarily driven by the increase in revenues, offset by lower gross profit margin. The Specialty Health Care segment's gross profit margin for the twenty-six week period ended July 1, 2017 decreased to 24.7% as compared to 26.6% for the comparable prior year period. The decrease in gross profit margin was primarily driven by a decrease in high gross profit margin permanent placement revenues and increased revenues with new clients at a lower gross profit margin, particularly in the travel nurse staffing group and Chicago office. Specialty Health Care experienced operating income of \$0.8 million for the twenty-six week period ended July 1, 2017 as compared to operating income of \$1.2 million for the comparable prior year period. The primary reason for the decrease in operating income was an increase in SGA expense, partially offset by the increase in gross profit. SGA expense increased by \$0.6 million, primarily due to the need to increase SGA infrastructure expense in order to support the increased activity levels associated with higher revenues in the current period and anticipated, continued increased activity for the balance of the Company's fiscal 2017.

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

Twenty-Six Week Period Ended July 1, 2017 Compared to Twenty-Six Week Period Ended July 2, 2016 (Continued)

Segment Discussion (Continued)

Supplemental Operating Results on a Non-GAAP Basis

The following non-GAAP measures, which adjust for the categories of expenses described below, primarily changes in contingent consideration as a result of re-measurement in the amount of contingent consideration we expect to pay with respect to past acquisitions, are non-GAAP financial measures. Our management believes that these non-GAAP financial measures ("EBITDA", "Adjusted EBITDA", "Adjusted Net Income" and "Diluted EPS") are useful information for investors, shareholders and other stakeholders of our company in gauging our results of operations on an ongoing basis and to enhance investors' overall understanding of our current financial performance and period-to-period comparisons. We believe that EBITDA is a performance measure and not a liquidity measure, and therefore a reconciliation between net income and EBITDA and Adjusted EBITDA has been provided. EBITDA should not be considered as an alternative to net income as an indicator of performance. In addition, EBITDA does not take into account changes in certain assets and liabilities as well as interest and income taxes that can affect cash flows. We do not intend the presentation of these non-GAAP measures to be considered in isolation or as a substitute for results prepared in accordance with GAAP. These non-GAAP measures should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

The following unaudited table presents the Company's GAAP Net Income measure and the corresponding adjustments used to calculate "EBITDA", "Adjusted EBITDA", "Adjusted Net Income" and "Diluted EPS" for the thirteen weeks and twenty-six weeks ended July 1, 2017 and July 2, 2016.

	Thirteen Week Periods		Twenty-Six Week Periods	
	Ended July 1, 2017	Ended July 2, 2016	Ended July 1, 2017	Ended July 2, 2016
GAAP net income	\$189	\$863	\$739	\$1,864
Income tax expense	577	580	929	1,200
Interest expense	134	96	272	308
Depreciation and amortization	410	399	807	789
EBITDA (non-GAAP)	\$1,310	\$1,938	\$2,747	\$4,161
Adjustments				
Change in contingent consideration	781	-	781	-
Gain on foreign currency transactions	(53)	(11)	(55)	(23)
Adjusted EBITDA (non-GAAP)	\$2,038	\$1,927	\$3,473	\$4,138
GAAP net income	\$189	\$863	\$739	\$1,864
Adjustments				
Change in contingent consideration	781	-	781	-
Adjusted net income (non-GAAP)	\$970	\$863	\$1,520	\$1,864
GAAP Diluted EPS	\$0.02	\$0.07	\$0.06	\$0.15
Adjustments				
Change in contingent consideration	\$0.06	-	\$0.06	-

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Adjusted Diluted EPS (non-GAAP)	\$0.08	\$0.07	\$0.12	\$0.15
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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Liquidity and Capital Resources

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

	Twenty-Six Week Periods Ended	
	July 1, 2017	July 2, 2016
Cash provided by (used in):		
Operating activities	\$5,330	\$7,681
Investing activities	(\$551)	(\$642)
Financing activities	(\$4,649)	(\$7,766)

Operating Activities

Operating activities provided \$5.3 million of cash for the twenty-six week period ended July 1, 2017 as compared to \$7.7 million in the comparable prior year period. The major components of cash provided by or used in operating activities in the twenty-six week period ended July 1, 2017 and the comparable prior year period are as follows: net income and changes in accounts receivable, the net of transit accounts payable and transit accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses and accrued payroll and related costs.

Net income for the twenty-six week period ended July 1, 2017 was \$0.7 million as compared to \$1.9 million for the comparable prior year period. A decrease in accounts receivables in the twenty-six week period ended July 1, 2017 provided \$1.6 million of cash as compared to \$3.2 million in the comparable prior year period. The Company primarily attributes the decrease in accounts receivables for the twenty-six week period ended July 1, 2017 to improved collections, particularly from the Company's Specialty Health Care and Canadian Engineering clients.

The Company's transit accounts payable generally exceeds the Company's transit accounts receivable, but absolute amounts and differences fluctuate significantly from quarter to quarter in the normal course of business. The net of transit accounts payable and transit accounts receivable was a net liability of \$2.2 million and \$2.5 million as of July 1, 2017 and December 31, 2016, respectively, so the cash impact during the twenty-six week period ended July 1, 2017 used \$0.3 million in cash. The net of transit accounts payable and transit accounts receivable was a net liability of \$3.2 million as of July 2, 2016 and of \$1.5 million as of January 2, 2016, so the cash impact during the twenty-six week period ended July 2, 2016 provided \$1.7 million in cash.

Prepaid expenses and other current assets provided \$0.3 million in cash for the twenty-six week period ended July 1, 2017 as compared to providing \$1.6 million in the comparable prior year period. The Company attributes these changes to general timing of payments in the normal course of business.

A decrease in accounts payable and accrued expenses used \$0.5 million for the twenty-six week period ended July 1, 2017 as compared to \$1.9 million of cash for the comparable prior year period. The Company attributes these changes to general timing of payments to vendors in the normal course of business.

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

Liquidity and Capital Resources (Continued)

Operating Activities (Continued)

An increase in accrued payroll and related costs for the twenty-six week period ended July 1, 2017 provided \$0.5 million in cash as compared to using \$0.8 million for the comparable prior year period. There are three primary factors that impact accrued payroll and related costs: 1) there is a general correlation to operating expenses as payroll and related costs is the Company's largest expense group, so as operating costs increase or decrease, absent all other factors, so will the accrued payroll and related costs; 2) the Company pays the majority of its employees every two weeks and normally has thirteen weeks in a fiscal quarter, which means that the Company normally has a major payroll on the last business day of every other quarter; and 3) most of the Company's senior management participate in annual incentive plans and while progress advances are often made during the fiscal year these accrued bonus balances to the extent they are projected to be achieved generally accumulate throughout the year. The Company's last major payroll for the twenty-six week period ended July 1, 2017 was paid on June 23, 2017.

Investing Activities

Investing activities used cash of \$0.6 million for both the twenty-six week period ended July 1, 2017 and the comparable prior year period. Investing activities for both periods presented were primarily related to expenditures for property and equipment.

Financing Activities

Financing activities used \$4.6 million of cash for the twenty-six week period ended July 1, 2017 as compared to \$7.8 million in the comparable prior year period. The Company made net repayments under its line of credit of \$4.2 million during the twenty-six week period ended July 1, 2017 as compared to net repayments of \$6.1 million in the comparable prior year period. The Company also used \$0.4 million to repurchase common stock and \$0.3 million to pay contingent consideration during the twenty-six week period ended July 1, 2017. The Company generated cash of \$0.2 million from sales of shares from its equity plans for both periods presented.

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania which provides for a \$35 million revolving credit facility and includes a sub-limit of \$5 million for letters of credit (the "Revolving Credit Facility") and expires December 11, 2019. The Revolving Credit Facility has been amended several times, most recently pursuant to the Seventh Amendment entered into on March 8, 2017 when the Company was granted a waiver that expressly excludes \$1.3 million of certain legal settlement and office closure expenses in the calculation of the Company's loan covenants. 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, typically borrowed in fixed 30-day increments or (ii) the agent bank's prime rate generally borrowed over shorter durations. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense. The effective interest rate, including unused line fees, for the twenty-six week period ended July 1, 2017 was 2.5%.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as a covenant that restricts on the Company's ability to borrow in order to pay dividends. As of July 1, 2017, the Company was in compliance with all covenants contained in its Revolving Credit

Facility.

Borrowings under the line of credit as of July 1, 2017 and December 31, 2016 were \$10.1 million and \$14.3 million, respectively. At July 1, 2017 and December 31, 2016 there were letters of credit outstanding for \$0.8 million. At July 1, 2017, the Company had availability for additional borrowings under the Revolving Credit Facility of \$24.1 million.

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

Liquidity and Capital Resources (Continued)

Commitments and Contingencies

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

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

The Company utilizes SAP software for its financial reporting and accounting system which was implemented in 1999 and has not undergone significant upgrades since its initial implementation. The Company believes that it will become necessary to upgrade or replace its SAP financial reporting and accounting system. The Company has not determined when this contemplated replacement may be necessary, but expects to undertake a comprehensive review of the system during fiscal 2017. The Company estimates this upgrade or replacement of the third-party system will cost between \$1.0 million and \$2.0 million. These estimates are subject to material change.

The Company's current commitments consist primarily of lease obligations for office space. The Company believes that its capital resources are sufficient to meet its present obligations and those to be incurred in the normal course of business for at least the next 12 months.

The Company leases office facilities and various equipment under non-cancelable leases expiring at various dates through November 2022. Certain leases are subject to escalation clauses based upon changes in various factors. The minimum future annual operating lease commitments for leases with non-cancelable terms, exclusive of unknown operating escalation charges, are as follows (in thousands):

Fiscal Years	Amount
2017 (after July 1, 2017)	\$1,700
2018	2,894
2019	1,513
2020	902
2021	399
Thereafter	252
Total	\$7,660

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

Liquidity and Capital Resources (Continued)

Future Contingent Payments

As of July 1, 2017, the Company had five active acquisition agreements whereby additional contingent consideration may be earned by the former shareholders: 1) effective July 1, 2012 the Company acquired certain assets of BGA, LLC ("BGA"); 2) effective August 1, 2014 the Company acquired all of the stock of Point Comm, Inc. ("PCI"); 3) effective July 5, 2015, the Company acquired certain assets of Substation Design Services, LLC ("SDS"); 4) effective December 31, 2016, the Company acquired certain assets of Allied Health Professionals, LLC ("AHP") and 5) effective April 16, 2017 the Company acquired certain assets of RAF Services, Inc. ("RAF"). The Company estimates future contingent payments at July 1, 2017 as follows:

Fiscal Year	Total
December 30, 2017 (after July 1, 2017)	\$1,525
December 30, 2018	240
Estimated future contingent consideration payments	\$1,765

Estimates of future contingent payments are subject to significant judgment and actual payments may materially differ from estimates. Potential future contingent payments to be made to all active acquisitions are capped at cumulative maximum of \$3.2. The Company estimates future contingent consideration in payments based on forecasted performance and recorded at the net present value of those expected payments as of July 1, 2017. The measurement is based on significant inputs that are not observable in the market, which "Fair Value Measurements and Disclosures" (ASU Topic 820-10-35) refers to as Level 3 inputs.

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 July 1, 2017, 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. Based on the Company's variable-rate line of credit balances during the twenty-six week period ended July 1, 2017, if the interest rate on the Company's variable-rate line of credit (using an incremental borrowing rate) during the period had been 1.0% higher, the Company's interest expense on an annualized basis would have increased by \$0.1 million. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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 31, 2016.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

- 31.1* Certification of President and Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2* Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1** Certification of President and Chief Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)
- 32.2** Certification of Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Documents
- 101.DEF* XBRL Taxonomy Definition Linkbase Document

* Filed herewith

** Furnished herewith

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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: August 10, 2017 By: /s/ Rocco Campanelli
Rocco Campanelli
President and Chief Executive Officer
(Principal Executive Officer and
Duly Authorized Officer of the Registrant)

Date: August 10, 2017 By: /s/ Kevin D. Miller
Kevin D. Miller
Chief Financial Officer
(Principal Financial Officer and
Duly Authorized Officer of the Registrant)

Exhibit 31.1

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

CERTIFICATION

I, Rocco Campanelli, certify that:

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

report financial information; and

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

/s/ Rocco Campanelli

Date: August 10, 2017 Rocco Campanelli
President and Chief Executive Officer

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Exhibit 31.2

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

CERTIFICATION

I, Kevin D. Miller, certify that:

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

report financial information; and

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

/s/ Kevin D. Miller

Date: August 10, 2017 Kevin D. Miller
Chief Financial Officer

Exhibit 32.1

RCM TECHNOLOGIES, INC.

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

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

- (1) The Company's periodic report on Form 10-Q for the quarter ended July 1, 2017 (the "Form 10-Q") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

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

Date: August 10, 2017

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Exhibit 32.2

RCM TECHNOLOGIES, INC.

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

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

- (1) The Company's periodic report on Form 10-Q for the quarter ended July 1, 2017 (the "Form 10-Q") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

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

Date: August 10, 2017

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