RCM TECHNOLOGIES INC
Form 10-Q
August 08, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 29, 2013

OR

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

For the transition period from __________ to __________

Commission file number: 1-10245

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

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

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

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

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

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

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

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

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

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

Common Stock, $0.05 par value, 12,364,673 shares outstanding as of August 7, 2013.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 29, 2013 and December 29, 2012
(In thousands, except share and per share amounts)

	June 29, 2013 (Unaudited)	December 29, 2012
Current assets:		
Cash and cash equivalents	$13,195	$14,123
Accounts receivable, net	49,089	43,706
Transit accounts receivable	5,899	10,010
Prepaid expenses and other current assets	1,612	1,965
Deferred income tax assets, domestic	497	541
Total current assets	70,292	70,345
Property and equipment, net	2,252	1,880
Other assets:		
Deposits	210	244
Goodwill	9,545	9,545
Intangible assets, net	256	332
Deferred income tax assets, domestic	1,916	2,202
Total other assets	11,927	12,323
Total assets	$84,471	$84,548
Current liabilities:		
Accounts payable and accrued expenses	$8,605	$6,334
Transit accounts payable	6,662	11,987
Accrued payroll and related costs	6,360	6,241
Income taxes payable	449	119
Deferred income tax liability, foreign	70	73
Contingent consideration	313	309
Total current liabilities	22,459	25,063
Contingent consideration	617	713
Total liabilities	23,076	25,776
Stockholders' equity:		
Preferred stock, $1.00 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, $0.05 par value; 40,000,000 shares authorized; 13,802,570 shares issued and 12,329,264 shares outstanding at	690	688

June 29, 2013 and 13,756,589 shares issued and 12,298,733 shares outstanding at December 29, 2012		
Additional paid-in capital	109,962	109,390
Accumulated other comprehensive income	1,072	1,370
Accumulated deficit	(42,829)	(45,259)
Treasury stock common (1,473,306 shares at June 29, 2013 and 1,457,856 at December 29, 2012, at cost)	(7,500)	(7,417)
Stockholders' equity	61,395	58,772
Total liabilities and stockholders' equity	$84,471	$84,548

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Thirteen and Twenty-Six Week Periods Ended June 29, 2013 and June 30, 2012
(Unaudited)
(In thousands, except per share amounts)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Revenues	$42,379	$35,753	$83,609	$73,959
Cost of services	31,117	26,097	61,726	54,018
Gross profit	11,262	9,656	21,883	19,941
Operating costs and expenses				
Selling, general and administrative	9,007	8,382	17,762	16,613
Facilities consolidation charge	260	-	343	-
Depreciation and amortization	281	259	550	537
	9,548	8,641	18,655	17,150
Operating income	1,714	1,015	3,228	2,791
Other (expense) income				
Interest expense and other, net	(16)	(10)	(22)	(21)
Reduction in contingent consideration	-	-	92	43
Gain on foreign currency transactions	3	6	8	7
	(13)	(4)	78	29
Income before income taxes	1,701	1,011	3,306	2,820
Income tax expense	231	506	876	1,256
Net income	$1,470	$505	$2,430	$1,564
Basic and diluted net earnings per share	$0.12	$0.04	$0.20	$0.12

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Twenty-Six Week Periods Ended June 29, 2013 and June 30, 2012
(Unaudited)
(In thousands)

	June 29, 2013	June 30, 2012
Net income	$2,430	$1,564
Foreign currency translation adjustment	(298)	(65)
Comprehensive income	$2,132	$1,499

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Twenty-Six Week Period Ended June 29, 2013
(Unaudited)
(In thousands, except share amounts)

	Common Stock Issued Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total
Balance, December 29, 2012	13,756,589	$688	$109,390	$1,370	($45,259)	1,457,856	($7,417)	$58,772
Issuance of stock under employee stock purchase plan	26,481	1	119	-	-	-	-	120
Translation adjustment	-	-	-	(298)	-	-	-	(298)
Issuance of stock upon exercise of stock options	19,500	1	84	-	-	-	-	85
Share-based compensation expense	-	-	369	-	-	-	-	369
Common stock repurchase	-	-	-	-	-	15,450	(83)	(83)
Net income	-	-	-	-	$2,430	-	-	2,430
Balance, June 29, 2013	13,802,570	$690	$109,962	$1,072	($42,829)	1,473,306	($7,500)	$61,395

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Twenty-Six Week Periods Ended June 29, 2013 and June 30, 2012
(Unaudited)
(In thousands)

	June 29, 2013	June 30, 2012
Cash flows from operating activities:		
Net income	$2,430	$1,564
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	550	537
Changes in fair value of contingent consideration	(92)	(43)
Stock-based compensation expense	369	54
Provision for allowance for doubtful accounts	(204)	277
Deferred income tax expense	330	268
Changes in assets and liabilities:		
Accounts receivable	(5,602)	(1,324)
Transit accounts receivable	4,141	(1,537)
Prepaid expenses and other current assets	318	(592)
Accounts payable and accrued expenses	2,388	(900)
Transit accounts payable	(5,325)	6,050
Accrued payroll and related costs	165	(185)
Income taxes payable	330	493
Total adjustments	(2,632)	3,098
Net cash (used in) provided by operating activities	(202)	4,662
Cash flows from investing activities:		
Property and equipment acquired	(845)	(111)
Decrease (increase) in deposits	34	(74)
Net cash used in investing activities	(811)	(185)
Cash flows from financing activities:		
Sale of stock for employee stock purchase plan	120	61
Exercise of stock options	85	239
Common stock repurchases	(83)	(4,070)
Net cash provided by (used in) financing activities	122	(3,770)
Effect of exchange rate changes on cash and cash equivalents	(37)	28
(Decrease) increase in cash and cash equivalents	(928)	735
Cash and cash equivalents at beginning of period	14,123	28,417
Cash and cash equivalents at end of period	$13,195	$29,152
Supplemental cash flow information:		
Cash paid for:		

Interest	$34	$26
Income taxes	$186	$1,031

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

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

1. Basis of Presentation

The accompanying consolidated interim financial statements of RCM Technologies, Inc. and subsidiaries (“RCM” or the “Company”) are unaudited. The year-end consolidated balance sheet was derived from audited statements but does not include all disclosures required by accounting principles generally accepted in the United States. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the Company’s consolidated financial statements and the notes thereto for the year ended December 29, 2012 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 except for the reduction of the contingent consideration pertaining to the PSG acquisition) 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 periods ended June 29, 2013 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 29, 2012 was a 52-week reporting year. The second fiscal quarters of 2013 and 2012 ended on the following dates, respectively:

Period Ended	Weeks in Quarter	Weeks in Year to Date
June 29, 2013	Thirteen	Twenty-Six
June 30, 2012	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, 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.

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

3. Use of Estimates and Uncertainties (Continued)

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

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

4. Accounts Receivable

The Company's accounts receivable are comprised as follows:

	June 29, 2013	December 29, 2012
Billed	$30,927	$26,600
Accrued and unbilled	5,426	4,761
Work-in-progress	13,864	13,552
Allowance for doubtful accounts and sales discounts	(1,128)	(1,207)
Accounts receivable, net	$49,089	$43,706

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

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:

	June 29, 2013	December 29, 2012
Equipment and furniture	$2,360	$2,366
Computers and systems	5,418	5,204

Leasehold improvements	443	949
	8,221	8,519
Less: accumulated depreciation and amortization	5,969	6,639
Property and equipment, net	$2,252	$1,880

The Company periodically writes off fully depreciated assets. The Company wrote off fully depreciated assets of $1,143 and $1,211 for the twenty-six week periods ended June 29, 2013 and June 30, 2012, respectively.

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

6. Acquisitions

The Company has acquired numerous companies throughout its history and those acquisitions have generally included significant future contingent consideration.

Future Contingent Payments
As of June 29, 2013, the Company had one active acquisition agreement whereby additional contingent consideration may be earned. Effective July 1, 2012 the Company acquired certain assets of BGA, LLC ("BGA") as more fully described below. The Company estimates future contingent payments at June 29, 2013 as follows:

Period Ending	
December 28, 2013	$313
January 3, 2015	253
January 2, 2016	269
December 31, 2016	307
Estimated future contingent consideration payments	$1,142

Actual future contingent payments may materially differ from the estimates above. Future contingent payments to be made to BGA are capped at a maximum of $3.0 million cumulatively. The Company estimates future contingent consideration in payments based on forecasted performance and recorded the net preset value of those expected payments as of June 29, 2013. 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.

During the twenty-six week period ended June 29, 2013, the Company reduced its liability for contingent consideration by $92, which eliminates any remaining accrual for contingent consideration related to the 2009 acquisition of certain assets of Project Solutions Group, Inc. The reduction is reflected in other income. The Company paid no consideration during the twenty-six week period ended June 29, 2013 or the comparable prior year period.

BGA, LLC
Effective July 1, 2012, the Company purchased the operating assets of BGA. BGA provides comprehensive multidiscipline engineering solutions across numerous industry sectors including Power Generation (both Nuclear and Fossil), Energy Delivery, Energy Management, Architecture, Commercial Building and Manufacturing. The Company believes that the BGA assembled workforce consists of highly trained and experienced engineers that will greatly assist RCM in executing future growth in revenues. The business acquired in the BGA acquisition will operate as part of the Company's Engineering segment. The BGA purchase consideration consisted of the following:

Cash	$1,292
Lease in excess of market, net present value	469
Contingent consideration, net	930

present value	
Total consideration	$2,691

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)

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

Fixed assets	$28
Restricted covenants	70
Customer relationships	180
Deferred tax asset	187
Goodwill	2,226
Total consideration	$2,691

Fixed assets acquired were recorded at approximate market value. The value of restricted covenants and customer relationships were recorded based on the valuation of a third party firm. The primary item that generated goodwill was the acquisition of a highly skilled and trained assembled workforce of engineers that the Company anticipates may allow it to win contract awards from its current and future customer base that the Company would not otherwise win.

Pro Forma Results of Operations

The following (unaudited) results of operations have been prepared assuming the BGA acquisition had occurred as of the beginning of the twenty-six week period ended June 30, 2012. Those results are not necessarily indicative of results of future operations or of results that would have occurred had the acquisition occurred as of the beginning of the periods presented.

	Proforma Results for the Thirteen Week Period Ended June 30, 2012	Proforma Results for the Twenty-Six Week Period Ended June 30, 2012
Revenues	$37,248	$76,562
Operating income	$1,088	$2,939
Basic and diluted earnings per share	$0.04	$0.13

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

7. Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company is required to assess the carrying value of its reporting units that contain goodwill at least on an annual basis. The Company has the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than the carrying value, the quantitative impairment test is required. The Company formally assesses these qualitative factors, and if necessary, conducts its annual goodwill impairment test as of the last day of the Company's fiscal November each year or if indicators of impairment exist. The Company has determined that the qualitative factors that exist do not suggest that an impairment of goodwill exists.

The carrying amount of goodwill at both June 29, 2013 and December 29, 2012 for the Company's Information Technology, Engineering and Specialty Health Care segments was $5,516, $2,326 and $1,703, respectively.

8. Intangible Assets

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

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

	Information Technology	Engineering	Total
Balance as of December 29, 2012	$106	$226	$332
Amortization of intangibles during the twenty-six week period ended June 29, 2013	53	23	76
Balance as of June 29, 2013	$53	$203	$256

The Company periodically writes off fully amortized intangible assets. The Company did not write off any fully amortized intangibles for the twenty-six week period ended June 29, 2013 and wrote off fully amortized intangibles of $171 for the twenty-six week period ended June 30, 2012.

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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

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

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

There were no borrowings during the twenty-six week periods ended June 29, 2013 and June 30, 2012. At both June 29, 2013 and June 30, 2012, there were letters of credit outstanding for $0.8 million. At June 29, 2013, the Company had availability for additional borrowings under the Revolving Credit Facility of $14.2 million.

10. Per Share Data

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

The number of shares of common stock used to calculate basic and diluted earnings per share for the thirteen and twenty-six week periods ended June 29, 2013 and June 30, 2012 was determined as follows:

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Basic weighted average shares outstanding	12,324,868	12,457,871	12,317,967	12,605,098
Dilutive effect of outstanding stock options	99,569	211,797	85,742	211,788
Weighted average dilutive shares outstanding	12,424,437	12,669,668	12,403,709	12,816,886

There were 97,500 and 62,500 absolute anti-dilutive shares not included in the calculation of common stock equivalents for the twenty-six week periods ended June 29, 2013 and June 30, 2012, respectively.

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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)

10. Per Share Data (Continued)

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

	June 29, 2013	December 29, 2012
Exercise of options outstanding	284,900	307,400
Restricted stock awards outstanding	350,000	350,000
Future grants of options or shares	34,100	34,100
Shares reserved for employee stock purchase plan	221,271	247,752
Total	890,271	939,252

11. Share-Based Compensation

At June 29, 2013, the Company had three share-based employee compensation plans. The Company measures the fair value of share-based awards, if and when granted, based on the Black-Scholes method and using the closing market price of the Company's common stock on the date of grant. Awards vest over periods ranging from one to three years and expire within 10 years of issuance. Share-based compensation expense related to awards is amortized in accordance with applicable vesting periods using the straight-line method. Share-based compensation expense of $369 and $54 was recognized for the twenty-six week periods ended June 29, 2013 and June 30, 2012, respectively.

As of June 29, 2013, the Company had approximately $1.5 million of total unrecognized compensation cost related to all non-vested share-based awards granted under the Company's various share-based plans, which the Company expects to recognize over approximately a three-year period. These amounts do not include the cost of any additional share-based awards that may be granted in future periods or reflect any potential changes in the Company's forfeiture rate.

Incentive Share-Based Plans

1996 Executive Stock Option Plan (the 1996 Plan)

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provided for the issuance of up to 1,250,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006, at which time the 1996 Plan expired. Options were generally granted at fair market value at the date of grant. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of June 29, 2013, options to purchase 132,000 shares of common stock granted under the 1996 Plan were outstanding.

2000 Employee Stock Incentive Plan (the 2000 Plan)

The 2000 Plan, approved by the Company's stockholders in April 2001, provided for the issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors may award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determines the vesting period at the time of grant. As of June 29, 2013, options to purchase 76,500 shares of common stock granted under the 2000 Plan were outstanding.

The 1996 Plan and 2000 Plan are expired and 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)

2007 Omnibus Equity Compensation Plan (the 2007 Plan)

The 2007 Plan, approved by the Company’s stockholders in June 2007, provides for the issuance of up to 700,000 shares of the Company’s common stock to officers, non-employee directors, employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. No more than 350,000 shares of common stock in the aggregate may be issued pursuant to grants of stock awards, stock units, performance shares and other stock-based awards. No more than 300,000 shares of common stock with respect to awards may be granted to any individual during any fiscal year. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of June 29, 2013, under the 2007 Plan, 34,100 shares of common stock were available for future grants and options to purchase 76,400 shares of common stock, as well as 350,000 restricted stock units, were outstanding.

Stock Options

There were 5,000 options granted during the twenty-six week period ended June 29, 2013 and 20,000 options granted during the twenty-six week period ended June 30, 2012. Activity regarding outstanding options for the twenty-six week period ended June 29, 2013 is as follows:

	All Stock Options Outstanding	
	Shares	Weighted Average Exercise Price
Options outstanding as of December 29, 2012	307,400	$5.34
Options granted	5,000	$5.78
Options exercised	(19,500)	$4.39
Options forfeited/cancelled	(8,000)	$5.16
Options outstanding as of June 29, 2013	284,900	$5.41
Options outstanding price range at June 29, 2013	$2.50 - $9.81	
Options exercisable as of June 29, 2013	229,900	$5.38
Intrinsic value of outstanding stock options as of June 29, 2013	$167	
Intrinsic value of stock options exercised for the twenty-six week period ended June 29, 2013	$24	

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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 (Continued)

As of June 29, 2013, the Company had approximately $0.1 million of total unrecognized compensation cost related to non-vested stock option awards granted under the Company's various share-based plans, which the Company expects to recognize over approximately a three-year period. These amounts do not include the cost of any additional options that may be granted in future periods or reflect any potential changes in the Company's forfeiture rate.

Restricted Stock Units

On November 16, 2012, the Company granted 350,000 restricted stock units all of which fully vest after three years of continued service. All of these restricted stock units include dividend accrual equivalents, which means that any dividends paid by the Company during the three year vesting period become due and payable after the three year vesting period assuming the grantee's restricted stock unit fully vests. Dividends for these grants are accrued on the dividend payment dates and included in accounts payable and accrued expenses on the accompanying consolidated balance sheet. Dividends for restricted share units that ultimately do not vest are forfeited.

To date, the Company has only issued restricted stock units under the 2007 Plan. The following summarizes the restricted stock units activity under the 2007 Plan during 2013:

	Number of Restricted Stock Units (in thousands)	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at December 29, 2012	350	$5.62
Granted	8	$5.45
Vested	-	N/A
Forfeited or expired	(8)	$5.62
Outstanding non-vested at June 29, 2013	350	$5.62

Based on the closing price of the Company's common stock of $5.43 per share on June 28, 2013, the intrinsic value of the non-vested restricted stock units at June 29, 2013 was $1.9 million. As of June 29, 2013, there was approximately $1.4 million of total unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted-average period of approximately 28.5 months.

Employee Stock Purchase Plan

The Company implemented the 2001 Employee Stock Purchase Plan with stockholder approval, effective January 1, 2001. Such Plan was subsequently amended, pursuant to stockholder approval where required, effective June 18, 2009 and September 16, 2009 (the 2001 Employee Stock Purchase Plan, as so amended, the "Purchase Plan"). Under the Purchase Plan, employees meeting certain specific employment qualifications are eligible to participate and can purchase shares of common stock semi-annually through payroll deductions at the lower of 85% of the fair market value of the stock at the commencement or end of the offering period. The purchase plan permits eligible employees to purchase shares of common stock through payroll deductions for up to 10% of qualified compensation. The Company has two offering periods in the Purchase Plan coinciding with the Company's first two fiscal quarters and the last two fiscal quarters. Actual shares are issued on the first day of the subsequent offering period for the prior offering period payroll deductions. The number of shares issued at the beginning of the current period (as of January 2, 2013) was 26,481. As of June 29, 2013, there were 221,271 shares available for issuance under the Purchase Plan.

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12. Treasury Stock Transactions

Our Board of Directors instituted a share repurchase program in February 2010, which authorized the repurchase of up to $7.5 million of the Company's outstanding shares of common stock at prevailing market prices, from time to time over the subsequent 12 months. In February 2011, the share repurchase program was extended through February 2013. During the twenty-six week period ended June 29, 2013, the Company repurchased 15,450 shares for an average price of $5.35 per share. Since the inception of its share repurchase program and through June 29, 2013, the Company has purchased 1,473,306 shares at a total cost of approximately $7.5 million, or an average price of $5.09.

13. New Accounting Standards

There have been no recent accounting pronouncements or changes in accounting pronouncements during the twenty-six week period ended June 29, 2013, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012, that are of material significance, or have potential material significance, to the Company.

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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 29, 2012).

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 June 29, 2013	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	$14,228	$20,953	$7,198	$ -	$42,379
Cost of services	10,072	16,107	4,938	-	31,117
Selling, general and administrative (Includes facilities consolidation change)	3,725	3,681	1,861	-	9,267
Depreciation and amortization	85	167	29	-	281
Operating income	$346	$998	$370	$ -	$1,714
Total assets	$14,727	$39,958	$12,291	$17,495	$84,471
Capital expenditures	$37	$360	$ -	$135	$532

Thirteen Week Period Ended June 30, 2012	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	$13,392	$14,761	$7,600	$ -	$35,753
Cost of services	9,417	11,497	5,183	-	26,097
Selling, general and administrative	3,692	2,792	1,898	-	8,382

Depreciation and amortization	93	132	34	-	259
Operating income	$190	$340	$485	$ -	$1,015
Total assets	$15,945	$27,652	$10,456	$35,322	$89,375
Capital expenditures	$2	$36	$ -	$ -	$38

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14. Segment Information (Continued)

Twenty-Six Week Period Ended June 29, 2013	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	$28,222	$41,263	$14,124	$ -	$83,609
Cost of services	20,055	31,906	9,765	-	61,726
Selling, general and administrative (Includes facilities consolidation change)	7,297	7,132	3,676	-	18,105
Depreciation and amortization	170	322	58	-	550
Operating income	$700	$1,903	$625	$ -	$3,228
Total assets	$14,727	$39,958	$12,291	$17,495	$84,471
Capital expenditures	$56	$633	$4	$152	$845

Twenty-Six Week Period Ended June 30, 2012	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	$27,147	$31,387	$15,425	$ -	$73,959
Cost of services	19,205	24,272	10,541	-	54,018
Selling, general and administrative	7,240	5,579	3,794	-	16,613
Depreciation and amortization	193	276	68	-	537
Operating income	$509	$1,260	$1,022	$ -	$2,791
Total assets	$15,945	$27,652	$10,456	$35,322	$89,375
Capital expenditures	$48	$63	$ -	$ -	$111

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14. Segment Information (Continued)

The Company derives a majority of its revenue from offices in the United States. Revenues reported for each operating segment are all from external customers. The Company is domiciled in the United States and its segments operate in the United States, Canada and Puerto Rico. Revenues by geographic area for the thirteen and twenty-six week periods ended June 29, 2013 and June 30, 2012 are as follows:

Thirteen Week Periods Ended		Twenty-Six Week Periods Ended
June 29, 2013	June 30, 2012	June 29, 2013