

RCM TECHNOLOGIES INC  
Form 10-Q  
November 09, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2018

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 every Interactive Data File required to be submitted 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 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 an emerging growth company. (See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange

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Act). (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company  Emerging Growth Company

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

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, 12,725,978 shares outstanding as of November 9, 2018.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

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## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

September 29, 2018 and December 30, 2017

(In thousands, except share and per share amounts)

|                                                          | September 29,<br>2018<br>(Unaudited) | December 30,<br>2017 |         |         |
|----------------------------------------------------------|--------------------------------------|----------------------|---------|---------|
| Current assets:                                          |                                      |                      |         |         |
| Cash and cash equivalents                                | \$710                                | \$2,851              |         |         |
| Accounts receivable, net                                 | 46,663                               | 46,080               |         |         |
| Transit accounts receivable                              | 4,365                                | 3,002                |         |         |
| Prepaid expenses and other current assets                | 3,947                                | 3,706                |         |         |
| Total current assets                                     | 55,685                               | 55,639               |         |         |
| Property and equipment, net                              | 3,694                                | 3,446                |         |         |
| Other assets:                                            |                                      |                      |         |         |
| Deposits                                                 | 224                                  | 215                  |         |         |
| Goodwill                                                 | 11,685                               | 11,685               |         |         |
| Intangible assets, net                                   | 65                                   | 105                  |         |         |
| Deferred tax assets, net, domestic                       | 2,075                                | 2,189                |         |         |
| Total other assets                                       | 14,049                               | 14,194               |         |         |
| Total assets                                             | \$73,428                             | \$73,279             |         |         |
| Current liabilities:                                     |                                      |                      |         |         |
| Accounts payable and accrued expenses                    |                                      |                      | \$8,099 | \$8,634 |
| Transit accounts payable                                 |                                      |                      | 4,461   | 4,661   |
| Accrued payroll and related costs                        |                                      |                      | 8,658   | 7,780   |
| Income taxes payable                                     |                                      |                      | 916     | 372     |
| Liability for contingent consideration from acquisitions |                                      |                      | 553     | 741     |
| Total current liabilities                                |                                      |                      | 22,687  | 22,188  |
| Deferred tax liability, foreign                          |                                      |                      | 424     | 431     |
| Liability for contingent consideration from acquisitions |                                      |                      | 1,180   | 1,350   |
| Borrowings under line of credit                          |                                      |                      | 24,460  | 27,279  |
| Total liabilities                                        |                                      |                      | 48,751  | 51,248  |
| Stockholders' equity:                                    |                                      |                      |         |         |

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|                                                                                                                                                                                                                                             |          |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Preferred stock, \$1.00 par value; 5,000,000 shares authorized;<br>no shares issued or outstanding                                                                                                                                          | -        | -        |
| Common stock, \$0.05 par value; 40,000,000 shares authorized;<br>15,108,399 shares issued and 12,285,227 shares outstanding at<br>September 29, 2018 and 15,017,522 shares issued and 12,194,350 shares outstanding at December<br>30, 2017 | 755      | 751      |
| Additional paid-in capital                                                                                                                                                                                                                  | 105,243  | 104,540  |
| Accumulated other comprehensive loss                                                                                                                                                                                                        | (2,572)  | (2,395)  |
| Accumulated deficit                                                                                                                                                                                                                         | (63,762) | (65,878) |
| Treasury stock (2,823,172 shares at September 29, 2018 and<br>December 30, 2017) at cost                                                                                                                                                    | (14,987) | (14,987) |
| Stockholders' equity                                                                                                                                                                                                                        | 24,677   | 22,031   |
| Total liabilities and stockholders' equity                                                                                                                                                                                                  | \$73,428 | \$73,279 |

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

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## RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

Thirteen and Thirty-Nine Week Periods Ended September 29, 2018 and September 30, 2017

(Unaudited)

(In thousands, except per share amounts)

|                                                | Thirteen Weeks Ended  |                       | Thirty-Nine Weeks Ended |                       |
|------------------------------------------------|-----------------------|-----------------------|-------------------------|-----------------------|
|                                                | September 29,<br>2018 | September 30,<br>2017 | September 29,<br>2018   | September 30,<br>2017 |
| Revenues                                       | \$42,559              | \$43,827              | \$145,081               | \$135,680             |
| Cost of services                               | 31,571                | 32,109                | 108,803                 | 100,097               |
| Gross profit                                   | 10,988                | 11,718                | 36,278                  | 35,583                |
| Operating costs and expenses                   |                       |                       |                         |                       |
| Selling, general and administrative            | 9,412                 | 9,700                 | 29,909                  | 30,092                |
| Depreciation and amortization                  | 344                   | 422                   | 1,156                   | 1,229                 |
| Severance, professional fees and other charges | -                     | -                     | 1,371                   | -                     |
| Change in contingent consideration             | -                     | -                     | -                       | 781                   |
| Operating costs and expenses                   | 9,756                 | 10,122                | 32,436                  | 32,102                |
| Operating income                               | 1,232                 | 1,596                 | 3,842                   | 3,481                 |
| Other (expense) income                         |                       |                       |                         |                       |
| Interest expense and other, net                | (305                  | )(137                 | )(971                   | )(409                 |
| Gain (loss) on foreign currency transactions   | 10                    | (17                   | )(19                    | )38                   |
| Other (expense) income                         | (295                  | )(154                 | )(990                   | )(371                 |
| Income before income taxes                     | 937                   | 1,442                 | 2,852                   | 3,110                 |
| Income tax expense                             | 253                   | 422                   | 736                     | 1,351                 |
| Net income                                     | \$684                 | \$1,020               | \$2,116                 | \$1,759               |
| Basic and diluted net earnings per share       | \$0.06                | \$0.08                | \$0.17                  | \$0.15                |

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Thirty-Nine Week Periods Ended September 29, 2018 and September 30, 2017  
(Unaudited)  
(In thousands)

|                                 | September 29,<br>2018 | September 30,<br>2017 |
|---------------------------------|-----------------------|-----------------------|
| Net income                      | \$2,116               | \$1,759               |
| Other comprehensive (loss) gain | (177)                 | )369                  |
| Comprehensive income            | \$1,939               | \$2,128               |

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

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
Thirty-Nine Week Period Ended September 29, 2018  
(Unaudited)  
(In thousands, except share amounts)

|                                                               | Common Stock<br>Issued<br>Shares | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Accumulated<br>Deficit | Treasury Stock<br>Shares | Treasury Stock<br>Amount | Total    |
|---------------------------------------------------------------|----------------------------------|------------------------|----------------------------------|-----------------------------------------------|------------------------|--------------------------|--------------------------|----------|
| Balance, December<br>30, 2017                                 | 15,017,522                       | \$751                  | \$104,540                        | (\$2,395                                      | )(65,878               | 2,823,172                | (\$14,987)               | \$22,031 |
| Issuance of stock<br>under<br>employee stock<br>purchase plan | 90,877                           | 4                      | 381                              | -                                             | -                      | -                        | -                        | 385      |
| Translation adjustment-<br>Share-based                        | -                                | -                      | -                                | (177                                          | )-                     | -                        | -                        | (177 )   |
| compensation expense                                          | -                                | -                      | 322                              | -                                             | -                      | -                        | -                        | 322      |
| Net income                                                    | -                                | -                      | -                                | -                                             | 2,116                  | -                        | -                        | 2,116    |
| Balance, September<br>29, 2018                                | 15,108,399                       | \$755                  | \$105,243                        | (\$2,572                                      | )(63,762               | 2,823,172                | (\$14,987)               | \$24,677 |

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

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Thirty-Nine Week Periods Ended September 29, 2018 and September 30, 2017  
(Unaudited)  
(In thousands)

|                                                                          | September 29,<br>2018 | September 30,<br>2017 |   |
|--------------------------------------------------------------------------|-----------------------|-----------------------|---|
| Cash flows from operating activities:                                    |                       |                       |   |
| Net income                                                               | \$2,116               | \$1,759               |   |
| Adjustments to reconcile net income to net cash<br>(used in) provided by |                       |                       |   |
| operating activities:                                                    |                       |                       |   |
| Depreciation and amortization                                            | 1,156                 | 1,229                 |   |
| Change in contingent consideration                                       | -                     | 781                   |   |
| Share-based compensation expense                                         | 322                   | 591                   |   |
| Provision for losses on accounts receivable                              | 945                   | 131                   |   |
| Deferred income tax expense                                              | 104                   | 294                   |   |
| Changes in assets and liabilities:                                       |                       |                       |   |
| Accounts receivable                                                      | (1,664                | )3,682                |   |
| Prepaid expenses and other current assets                                | (593                  | )230                  |   |
| Net of transit accounts receivable and payable                           | (1,560                | )(1,189               | ) |
| Accounts payable and accrued expenses                                    | (219                  | )(1,313               | ) |
| Accrued payroll and related costs                                        | 905                   | (185                  | ) |
| Income taxes payable                                                     | 552                   | 946                   |   |
| Total adjustments                                                        | (52                   | )5,197                |   |
| Net cash provided by operating activities                                | 2,064                 | 6,956                 |   |
| Cash flows from investing activities:                                    |                       |                       |   |
| Property and equipment acquired                                          | (1,414                | )(747                 | ) |
| Decrease in deposits                                                     | (9                    | )4                    |   |
| Net cash used in investing activities                                    | (1,423                | )(743                 | ) |
| Cash flows from financing activities:                                    |                       |                       |   |
| Borrowings under line of credit                                          | 64,987                | 60,411                |   |
| Repayments under line of credit                                          | (67,807               | )(65,271              | ) |
| Issuance of stock for employee stock purchase<br>plan                    | 385                   | 394                   |   |
| Common stock repurchases                                                 | -                     | (365                  | ) |
| Contingent consideration paid                                            | (300)                 | (790                  | ) |
| Net cash used in financing activities                                    | (2,735                | )(5,621               | ) |
| Effect of exchange rate changes on cash and cash<br>equivalents          | (47                   | )(46                  | ) |
| (Decrease) increase in cash and cash equivalents                         | (2,141                | )546                  |   |
| Cash and cash equivalents at beginning of period                         | 2,851                 | 279                   |   |
| Cash and cash equivalents at end of period                               | \$710                 | \$825                 |   |

Supplemental cash flow information:

Cash paid for:

|              |       |       |
|--------------|-------|-------|
| Interest     | \$832 | \$366 |
| Income taxes | \$338 | \$340 |

Non-cash investing activities:

|                                                 |      |       |
|-------------------------------------------------|------|-------|
| Non-cash consideration for business acquisition | \$ - | \$133 |
|-------------------------------------------------|------|-------|

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.

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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)

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 30, 2017 included in the Company's Annual Report Form 10-K for such period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

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

Results for the thirteen and thirty-nine week periods ended September 29, 2018 are not necessarily indicative of results that may be expected for the full year.

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 30, 2017 was a 52-week reporting year. The third fiscal quarters of 2018 and 2017 ended on the following dates, respectively:

| Period Ended       | Weeks in Quarter | Weeks in Year to Date |
|--------------------|------------------|-----------------------|
| September 29, 2018 | Thirteen         | Thirty-Nine           |
| September 30, 2017 | Thirteen         | Thirty-Nine           |

2. 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)

2. 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.

3. Revenue Recognition

As of December 31, 2017, the Company adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASC 606"), using the modified retrospective approach. Revenues are recognized when we satisfy a performance obligation by transferring services promised in a contract to a customer, in an amount that reflects the consideration that we expect to receive in exchange for those services. Performance obligations in our contracts represent distinct or separate service streams that we provide to our customers. The adoption of ASC 606 did not result in an adjustment to retained earnings in the Company's consolidated balance sheet as of December 31, 2017.

We evaluate our revenue contracts with customers based on the five-step model under ASC 606: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied.

The Company derives its revenues from several sources. The Company's Engineering Services and Information Technology Services segments perform consulting and project solution 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.

The following table presents our revenues disaggregated by revenue source for the thirty-nine weeks periods ended September 29, 2018 and September 30, 2017:

|                              | September 29,<br>2018 | September 30,<br>2017 |
|------------------------------|-----------------------|-----------------------|
| Engineering:                 |                       |                       |
| Time and Material            | \$56,639              | \$52,843              |
| Fixed Fee                    | 5,773                 | 8,674                 |
| Total Engineering            | \$62,412              | \$61,517              |
| Specialty Health Care:       |                       |                       |
| Time and Material            | \$59,457              | \$47,554              |
| Permanent Placement Services | 1,142                 | 1,658                 |
| Total Specialty Health Care  | \$60,599              | \$49,212              |
| Information Technology:      |                       |                       |

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|                              |           |           |
|------------------------------|-----------|-----------|
| Time and Material            | \$21,875  | \$24,671  |
| Permanent Placement Services | 195       | 280       |
| Total Information Technology | \$22,070  | \$24,951  |
|                              | \$145,081 | \$135,680 |

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

3. Revenue Recognition (Continued)

Time and Material

The Company's IT and Healthcare segments predominantly recognize revenue through time and material work while its Engineering segment recognizes revenue through both time and material and fixed fee work. The Company's time and material contracts are typically based on the number of hours worked at contractually agreed upon rates, therefore revenues associated with these time and materials contracts are recognized based on hours worked at contracted rates.

Fixed fee

From time to time and predominantly in our Engineering segment, the Company will enter into contracts requiring the completion of specific deliverables. The Company has master services agreements with many of its customers that broadly define terms and conditions. Actual services performed under fixed fee arrangements are typically delivered under purchase orders that more specifically define terms and conditions related to that fixed fee project. While these master services agreements can often span several years, the Company's fixed fee purchase orders are typically performed over six to nine month periods. In instances where project services are provided on a fixed-price basis, revenue is recorded in accordance with the terms of each contract. In certain instances, revenue is invoiced 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. On an infrequent basis, amounts paid in excess of revenues earned and 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. Additionally, 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. Provisions for contract losses, if any, are made in the period such losses are determined. For contracts where there is a specific deliverable, the work is not complete and the revenue is not recognized, the costs incurred are deferred as a prepaid asset. The associated costs are expensed when the related revenue is recognized.

Permanent Placement Services

The Company earns permanent placement fees from providing permanent placement services. These fees are typically based on a percentage of the compensation paid to the person placed with the Company's client.

There was no deferred revenue balance at September 29, 2018. The deferred revenue balance at December 30, 2017 was \$596 and is included in accounts payable and accrued expense in the accompanying consolidated balance sheet at that date. Revenue is recognized when the service has been performed. Deferred revenue may be recognized over a period exceeding one year from the time it was recorded on the balance sheet. For the thirty-nine week period ended September 29, 2018, the Company recognized revenue of \$596 that was included in deferred revenue at the beginning of the reporting period.

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

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

The Company's accounts receivable are comprised as follows:

|                                                     | September 29,<br>2018 | December 30,<br>2017 |
|-----------------------------------------------------|-----------------------|----------------------|
| Billed                                              | \$30,106              | \$31,448             |
| Accrued and unbilled                                | 12,131                | 10,573               |
| Work-in-progress                                    | 5,704                 | 5,026                |
| Allowance for sales discounts and doubtful accounts | (1,278                | )(967 )              |
| Accounts receivable, net                            | \$46,663              | \$46,080             |

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 \$4.4 million and related transit accounts payable was \$4.5 million, for a net payable of \$0.1 million, as of September 29, 2018. The transit accounts receivable was \$3.0 million and related transit accounts payable was \$4.7 million, for a net payable of \$1.7 million, as of December 30, 2017.

The Company has a dispute with a customer that is a major utility in the United States. Essentially, the customer has not paid the balance of accounts receivable the Company believes are owed for certain disputed projects. The Company recently started arbitration hearings with this customer. As of September 29, 2018 the total amount of outstanding receivables from this customer was \$6.2 million, subject to potential upward adjustment in damages claimed in the arbitration. Additionally, as part of the arbitration process, the customer has asserted counter claims. While the total amount of asserted counter claims is unknown as of September 29, 2018, the total amount is anticipated to at least exceed \$11.5 million. The Company believes these counter claims were retaliatory in nature. Prior to the arbitration, the customer had not asserted any claims. The Company believes these asserted claims have no merit and were merely asserted as a strategy to reduce the Company's claims in any arbitration award or potential settlement agreement. The Company believes that its accounts receivable balance, subject to reserves, is fully collectible. Furthermore, the Company believes that this arbitration will conclude sometime in the first half of the Company's fiscal 2019. While the Company believes the customer's counter claims to be frivolous and without merit,

it can give no assurances that it will ultimately not have to pay all or a portion of such claims. The Company is continuing work on one of the engagements that have given rise to this dispute and also on several engagements from the same client that are not currently part of the arbitration.

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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)

### 5. Property and Equipment

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

Property and equipment are comprised of the following:

|                                                 | September 29,<br>2018 | December 30,<br>2017 |
|-------------------------------------------------|-----------------------|----------------------|
| Computers and systems                           | \$7,133               | \$6,172              |
| Equipment and furniture                         | 600                   | 938                  |
| Leasehold improvements                          | 693                   | 899                  |
|                                                 | 8,426                 | 8,009                |
| Less: accumulated depreciation and amortization | 4,732                 | 4,563                |
| Property and equipment, net                     | \$3,694               | \$3,446              |

The Company periodically writes off fully depreciated and amortized assets. The Company wrote off fully depreciated and amortized assets of \$994 and \$367 during the thirty-nine week periods ended September 29, 2018 and September 30, 2017, respectively. Depreciation expense for the thirty-nine week periods ended September 29, 2018 and September 30, 2017 was \$1,116 and \$1,179, 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.

The Company made the following acquisitions during fiscal 2017:

#### RAF

Effective April 16, 2017, the Company acquired the business operations of 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; and 2) contingent consideration of \$10 paid in fiscal 2017.

## RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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## 6. Acquisitions (Continued)

PSR

Effective October 1, 2017 the Company acquired all of the stock of PSR. PSR was established in Serbia in 2006 and specializes in the design and engineering associated with high voltage substations, design engineering for electrical equipment in power plants, 3D modeling, commissioning, site supervision and other engineering services for clients in Europe, North America, South America and the Middle East. At the time of acquisition, PSR had a highly trained staff of approximately 30 engineers. PSR has acted as a subcontractor to the Company for over three years. The total purchase price of \$3,248 included cash at closing of \$1,000, estimated contingent consideration of \$1,763 and \$485 due to seller upon realization of net working capital recorded at closing. As part of the working capital recorded at closing, the Company received cash of \$237. The Company allocated \$58 to fixed assets and the balance to goodwill.

Future Contingent Payments

As of September 29, 2018, the Company had three 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 July 5, 2015, the Company acquired certain assets of Substation Design Services, LLC ("SDS"); and 3) effective October 1, 2017, the Company acquired all of the stock of PSR Engineering Solutions d.o.o. Beograd (Voždovac) ("PSR"). The Company estimates future contingent payments at September 29, 2018 as follows:

| Fiscal Years Ending                                | Total   |
|----------------------------------------------------|---------|
| December 29, 2018 (after September 29, 2018)       | \$553   |
| December 28, 2019                                  | 450     |
| January 2, 2021                                    | 730     |
| Estimated future contingent consideration payments | \$1,733 |

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 \$2.4 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 September 29, 2018. 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. There has been no change in the fair value of contingent consideration for the thirty-nine week period ended September 29, 2018.

The Company paid contingent consideration of \$0.3 million and \$0.8 million during the thirty-nine week periods ended September 29, 2018 and September 30, 2017, respectively.

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### 7. Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company tests goodwill for impairment on an annual basis as of the last day of the Company's fiscal year or more frequently if events occur or circumstances change indicating that the fair value of goodwill may be below the carrying amount. The Company has determined that no impairment of goodwill existed during the thirty-nine week period ended September 29, 2018.

There were no changes in the carrying amount of goodwill for the thirty-nine week period ended September 29, 2018.

|                                                        | Engineering | Specialty Health Care | Information Technology | Total    |
|--------------------------------------------------------|-------------|-----------------------|------------------------|----------|
| Balance as of September 29, 2018 and December 30, 2017 | \$7,249     | \$2,398               | \$2,038                | \$11,685 |

### 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.

Intangible assets are substantially attributable to the Company's Engineering segment and include the following:

|                                  | Thirty-Nine Week Periods Ended |                   |
|----------------------------------|--------------------------------|-------------------|
|                                  | September 29, 2018             | December 30, 2017 |
| Customer contracts and relations | \$56                           | \$88              |
| Non-compete agreements           | 9                              | 17                |
| Intangible assets, net           | \$65                           | \$105             |

Amortization expense of intangible assets for the thirty-nine week periods ended September 29, 2018 and September 30, 2017 was \$40 and \$50, respectively.

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9. Line of Credit

The Company and its subsidiaries amended and restated its Revolving Credit Facility with Citizens Bank of Pennsylvania on August 9, 2018. As amended and restated, the Revolving Credit Facility now provides for a \$45.0 million revolving credit facility (increased from \$40.0 million), no longer has a sub-limit for letters of credit (from a sub-limit of \$5.0 million) and expires on August 8, 2023. The amended and restated Revolving Credit Facility provides the Company with waivers from certain financial covenant calculations of up to \$1.4 million in the borrowers' fiscal year ending on December 31, 2018 for certain expenses, including severance accrued for the Company's former chief executive officer and related payroll taxes, continuation of certain benefits and professional fees, charges incurred related to transactional financial advisory fees, legal fees associated with defending an ongoing frivolous lawsuit with a competitor of the Company, and search fees associated with hiring a senior executive. Except as noted, all material terms remain unchanged.

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 weighted average interest rate, including unused line fees, for the thirty-nine week period ended September 29, 2018 was 3.8%.

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 September 29, 2018, the Company was in compliance with all covenants contained in the Revolving Credit Facility.

Borrowings under the line of credit as of September 29, 2018 and December 30, 2017 were \$24.5 million and \$27.3 million, respectively. At September 29, 2018 and December 30, 2017 there were letters of credit outstanding for \$0.8 million. At September 29, 2018, the Company had availability for additional borrowings under the Revolving Credit Facility of \$19.7 million.

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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 thirty-nine week periods ended September 29, 2018 and September 30, 2017 was determined as follows:

|                                                        | Thirteen Week Periods Ended |                    | Thirty-Nine Week Periods Ended |                    |
|--------------------------------------------------------|-----------------------------|--------------------|--------------------------------|--------------------|
|                                                        | September 29, 2018          | September 30, 2017 | September 29, 2018             | September 30, 2017 |
| Basic weighted average shares outstanding              | 12,284,727                  | 12,009,181         | 12,254,415                     | 11,972,600         |
| Dilutive effect of outstanding restricted stock awards | 32,723                      | 141,914            | 24,165                         | 116,610            |
| Weighted average dilutive shares outstanding           | 12,317,450                  | 12,151,095         | 12,278,580                     | 12,089,210         |

For both the thirteen and thirty-nine week periods ended September 29, 2018, there were no anti-dilutive shares not included in the calculation of common stock equivalents as there were no stock options outstanding. For both the thirteen and the thirty-nine week periods ended September 30, 2017 there were 15,000 absolute anti-dilutive shares not included in the calculation of common stock equivalents. These were determined to be anti-dilutive because the exercise prices of the associated stock options 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:

|                                                      | September 29, 2018 | December 30, 2017 |
|------------------------------------------------------|--------------------|-------------------|
| Time-based restricted stock units outstanding        | 96,195             | 87,034            |
| Performance-based restricted stock units outstanding | 240,000            | 400,000           |
| Future grants of options or shares                   | 483,071            | 332,232           |
| Shares reserved for employee stock purchase plan     | 86,403             | 177,280           |
| Total                                                | 905,669            | 996,546           |

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11. Share-Based Compensation

At September 29, 2018, the Company had two 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 expenses 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 \$322 and \$591 was recognized for the thirty-nine week periods ended September 29, 2018 and September 30, 2017, respectively. Share based compensation for the thirty-nine week period ended September 29, 2018 did not include any expense associated with performance-based restricted stock units since they were, as of September 29, 2018, determined to be unlikely to vest.

As of September 29, 2018, the Company had approximately \$253 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

2014 Omnibus Equity Compensation Plan (the 2014 Plan)

The 2014 Plan, approved by the Company's shareholders 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 and restated 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 September 29, 2018, under the 2014 Plan, 96,195 time-based and 240,000 performance-based restricted share units were outstanding and 483,071 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.

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11. Share-Based Compensation (Continued)

Incentive Share-Based Plans (Continued)

Employee Stock Purchase Plan (Continued)

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 July 2, 2018) was 45,469. As of September 29, 2018, there were 86,403 shares available for issuance under the Purchase Plan.

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 issued time-based restricted stock units only under its 2007 Omnibus Equity Compensation Plan and the 2014 Plan. The 2007 Plan has expired and there are no time-based restricted stock units outstanding thereunder. The following summarizes the activity in the time-based restricted stock units under the 2014 Plan during the thirty-nine week period ended September 29, 2018:

|                                              | Number of<br>Time-Based<br>Restricted<br>Stock Units | Weighted<br>Average<br>Grant Date Fair<br>Value per Share |
|----------------------------------------------|------------------------------------------------------|-----------------------------------------------------------|
| Outstanding non-vested at December 30, 2017  | 87,034                                               | \$5.88                                                    |
| Granted                                      | 15,000                                               | \$5.33                                                    |
| Vested                                       | -                                                    | -                                                         |
| Forfeited or expired                         | 5,839                                                | \$6.85                                                    |
| Outstanding non-vested at September 29, 2018 | 96,195                                               | \$5.74                                                    |

Based on the closing price of the Company's common stock of \$4.27 per share on September 28, 2018 (the last trading day prior to September 29, 2018), the intrinsic value of the time-based non-vested restricted stock units at September 29, 2018 was approximately \$411. As of September 29, 2018, there was approximately \$253 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.

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11. Share-Based Compensation (Continued)

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 issued performance-based restricted stock units only under the 2014 Plan. The following summarizes the activity in the performance-based restricted stock units during 2018:

|                                              | Number of<br>Performance-Based<br>Restricted<br>Stock Units | Weighted<br>Average<br>Grant Date Fair<br>Value per Share |
|----------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------|
| Outstanding non-vested at December 30, 2017  | 400,000                                                     | \$5.11                                                    |
| Granted                                      | 200,000                                                     | \$5.66                                                    |
| Vested                                       | -                                                           | -                                                         |
| Forfeited or expired                         | 360,000                                                     | \$5.29                                                    |
| Outstanding non-vested at September 29, 2018 | 240,000                                                     | \$5.29                                                    |

As of September 29, 2018, the Company considers the metrics related to 240,000 of the performance-based restricted stock units 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.

12. Treasury Stock Transactions

For the thirty-nine week period ended September 29, 2018, the Company did not have an active stock purchase program and therefore did not purchase any treasury shares. For the thirty-nine week period ended September 30, 2017, the Company purchased 59,312 shares at an average price of \$6.16.

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13. New Accounting Standards and Updates from the Securities Exchange Commission ("SEC")

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. The Company will adopt ASU 2016-02 in the first quarter of 2019. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. The Company will adopt the new standard on January 1, 2019 and use the effective date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. The Company expects to elect the "package of expedients", which permits the Company not to reassess under the new standard the Company's prior conclusions about lease identification and initial direct costs. Although the Company is in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements, the Company expects the most significant change will be related to the recognition of right-of-use assets and lease liabilities on the Company's balance sheet for real estate operating leases.

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 does not expect the adoption of ASU 2016-13 to have a material impact on its financial statements.

In August 2018, the SEC issued the final rule on Disclosures About Changes in Stockholders' Equity For filings on Form 10-Q, which extends to interim periods the annual requirement in SEC Regulation S-X, Rule 3-04,2 to disclose (1) changes in stockholders' equity and (2) the amount of dividends per share for each class of shares (as opposed to common stock only, as previously required). Pursuant to the final rule, registrants must now analyze changes in stockholders' equity, in the form of a reconciliation, for "the current and comparative year-to-date [interim] periods, with subtotals for each interim period," i.e., a reconciliation covering each period for which an income statement is presented. Rule 3-04 permits the disclosure of changes in stockholders' equity (including dividend-per-share amounts) to be made either in a separate financial statement or in the notes to the financial statements. The final rule is effective for all filings made on or after November 5, 2018. The staff of the SEC has indicated it would not object if the filer's first presentation of the changes in shareholders' equity is included in its Form 10-Q for the quarter that begins after the effective date of the amendments. Therefore, the Company expects to conform to this rule in its Form 10-Q for the quarter ending March 31, 2019. The Company believes that the final rule will not have a material effect on its consolidated financial statements and disclosures.



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14. Segment Information

The Company follows "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for companies to report information about operating segments, geographic areas and major customers. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies (see Note 1 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 30, 2017).

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            | Engineering | Specialty Health Care | Information Technology | Corporate | Total    |
|---------------------------------------|-------------|-----------------------|------------------------|-----------|----------|
| September 29, 2018                    |             |                       |                        |           |          |
| Revenue                               | \$19,424    | \$15,106              | \$8,029                | \$ -      | \$42,559 |
| Cost of services                      | 14,049      | 11,665                | 5,857                  | -         | 31,571   |
| Gross profit                          | 5,375       | 3,441                 | 2,172                  | -         | 10,988   |
| Selling, general and administrative   | 3,780       | 3,648                 | 1,984                  | -         | 9,412    |
| Depreciation and amortization         | 236         | 85                    | 23                     | -         | 344      |
| Operating income (loss)               | \$1,359     | (\$292)               | )\$165                 | \$ -      | \$1,232  |
| Total assets as of September 29, 2018 | \$40,643    | \$18,874              | \$7,110                | \$6,801   | \$73,428 |
| Capital expenditures                  | \$465       | \$151                 | \$90                   | \$110     | \$816    |

| Thirteen Week Period Ended            | Engineering | Specialty Health Care | Information Technology | Corporate | Total    |
|---------------------------------------|-------------|-----------------------|------------------------|-----------|----------|
| September 30, 2017                    |             |                       |                        |           |          |
| Revenue                               | \$21,708    | \$14,335              | \$7,784                | \$ -      | \$43,827 |
| Cost of services                      | 15,533      | 10,805                | 5,771                  | -         | 32,109   |
| Gross profit                          | 6,175       | 3,530                 | 2,013                  | -         | 11,718   |
| Selling, general and administrative   | 3,968       | 3,750                 | 1,982                  | -         | 9,700    |
| Depreciation and amortization         | 297         | 86                    | 39                     | -         | 422      |
| Operating income (loss)               | \$1,910     | (\$306)               | )(8                    | )\$ -     | \$1,596  |
| Total assets as of September 30, 2017 | \$33,721    | \$16,178              | \$10,212               | \$3,937   | \$64,048 |
| Capital expenditures                  | \$138       | \$44                  | \$ -                   | \$13      | \$195    |

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## 14. Segment Information (Continued)

| Thirty-Nine Week Period Ended<br>September 29, 2018 | Engineering | Specialty Health Care | Information<br>Technology | Corporate | Total     |
|-----------------------------------------------------|-------------|-----------------------|---------------------------|-----------|-----------|
| Revenue                                             | \$62,412    | \$60,599              | \$22,070                  | \$ -      | \$145,081 |
| Cost of services                                    | 45,706      | 46,822                | 16,275                    | -         | 108,803   |
| Gross profit                                        | 16,706      | 13,777                | 5,795                     | -         | 36,278    |
| Selling, general and administrative                 | 12,006      | 12,255                | 5,648                     | -         | 29,909    |
| Depreciation and amortization                       | 785         | 294                   | 77                        | -         | 1,156     |
| Severance, professional fees and<br>other charges   | -           | -                     | -                         | 1,371     | 1,371     |
| Operating income (loss)                             | \$3,915     | \$1,228               | \$70                      | (\$1,371) | \$3,842   |
| Total assets as of September 29, 2018               | \$40,643    | \$18,874              | \$7,110                   | \$6,801   | \$73,428  |
| Capital expenditures                                | \$856       | \$207                 | \$108                     | \$243     | \$1,414   |

| Thirty-Nine Week Period Ended<br>September 30, 2017 | Engineering | Specialty Health Care | Information<br>Technology | Corporate | Total     |
|-----------------------------------------------------|-------------|-----------------------|---------------------------|-----------|-----------|
| Revenue                                             | \$61,517    | \$49,212              | \$24,951                  | \$ -      | \$135,680 |
| Cost of services                                    | 44,598      | 37,069                | 18,430                    | -         | 100,097   |
| Gross profit                                        | 16,919      | 12,143                | 6,521                     | -         | 35,583    |
| Selling, general and administrative                 | 12,184      | 11,429                | 6,479                     | -         | 30,092    |
| Change in contingent consideration                  | -           | -                     | -                         | 781       | 781       |
| Depreciation and amortization                       | 863         | 246                   | 120                       | -         | 1,229     |
| Operating income (loss)                             | \$3,872     | \$468                 | (\$78)                    | (\$781)   | \$3,481   |
| Total assets as of September 30, 2017               | \$33,721    | \$16,178              | \$10,212                  | \$3,937   | \$64,048  |
| Capital expenditures                                | \$247       | \$459                 | \$ -                      | \$41      | \$747     |

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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, Puerto Rico and Serbia. Revenues by geographic area for the thirty-nine week periods ended September 29, 2018 and September 30, 2017 are as follows:

|             | Thirteen Week Periods Ended |                    | Thirty-Nine Week Periods Ended |                    |
|-------------|-----------------------------|--------------------|--------------------------------|--------------------|
|             | September 29, 2018          | September 30, 2017 | September 29, 2018             | September 30, 2017 |
| Revenues    |                             |                    |                                |                    |
| U. S.       | \$34,729                    | \$34,207           | \$118,364                      | \$110,083          |
| Canada      | 6,308                       | 8,703              | 21,942                         | 22,420             |
| Puerto Rico | 1,113                       | 917                | 3,142                          | 3,177              |
| Serbia      | 409                         | -                  | 1,633                          | -                  |
|             | \$42,559                    | \$43,827           | \$145,081                      | \$135,680          |

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

|              | September 29,<br>2018 | December 30,<br>2017 |
|--------------|-----------------------|----------------------|
| Total assets |                       |                      |
| U. S.        | \$50,309              | \$52,595             |
| Canada       | 17,382                | 15,419               |
| Puerto Rico  | 1,823                 | 1,891                |
| Serbia       | 3,914                 | 3,374                |
|              | \$73,428              | \$73,279             |

15. Income Taxes

On December 22, 2017, the SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), directing taxpayers to consider the impact of the Tax Act as "provisional" when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. The changes in the Tax Act are broad and complex. The final impacts of the Tax Act may differ from the Company's estimates due to, among other things, changes in interpretations of the Tax Act, or any updates to estimates the Company has utilized to calculate the impacts of the Tax Act. The SEC has issued rules that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the related tax impacts. The Company currently anticipates finalizing any resulting adjustments before the end of its fiscal year ending December 29, 2018. The Company, based on current knowledge, estimated the impact of SAB 118 on its income tax provision for the fifty-two week period ended December 30, 2017. The total impact was an increase to its fiscal 2017 tax expense of \$1.2 million, including \$1.0 million for a reduction in deferred tax benefit and \$0.2 million related to transition repatriation taxes. Any subsequent changes to the Company's fiscal 2017 tax expense estimates, if any, could materially impact the Company's fiscal 2018 tax provision. As of September 29, 2018, the Company is unaware of any factors or potential

revisions that would materially change the Company's estimated fiscal 2017 or fiscal 2018 tax provisions.

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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)

15. Income Taxes (Continued)

The projected fiscal 2018 effective income tax rates as of September 29, 2018 for the thirty-nine week period ended September 29, 2018 are approximately 28.1%, 26.5% and 15.2% in the United States, Canada and Serbia, respectively, and yielded a consolidated effective income tax rate of approximately 25.8% for the thirty-nine week period ended September 29, 2018. The comparable prior year period estimated income tax rates were 42.5% and 26.5% in the United States and Canada, respectively, and yielded a consolidated effective income tax rate of approximately 34.7% for the thirty-nine week period ended September 30, 2017. The Company did not have Serbian operations for the comparable prior year period. The significant decrease in the tax rate in the United States for the thirty-nine week period ended September 29, 2018 as compared to the comparable prior year period was due to the reduction in the Company's federal income tax rate to 21.0% from 34.0% as provided for in the Tax Cuts and Jobs Act. The consolidated effective income tax rate for the comparable prior year period is impacted by a discrete permanent difference due to the increase in contingent consideration of \$0.8 million. The consolidated effective income tax rate for the comparable prior year period after eliminating this discrete permanent difference was 37.9%. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company.

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 \$11.5 million in damages (as further described below) as of September 29, 2018. As of September 29, 2018, the Company had a negligible accrual for any such liabilities.

The Company has a dispute with a customer that is a major utility in the United States. Essentially, the customer has not paid the balance of accounts receivable the Company believes are owed for certain disputed projects. The Company recently started arbitration hearings with this customer. As of September 29, 2018 the total amount of outstanding receivables from this customer was \$6.2 million, subject to potential upward adjustment in damages claimed in the arbitration. Additionally, as part of the arbitration process, the customer has asserted counter claims. While the total amount of asserted counter claims is unknown as of September 29, 2018, the total amount is anticipated to at least exceed \$11.5 million. The Company believes these counter claims were retaliatory in nature. Prior to the arbitration, the customer had not asserted any claims. The Company believes these asserted claims have no merit and were merely asserted as a strategy to reduce the Company's claims in any arbitration award or potential settlement agreement. The Company believes that its accounts receivable balance, subject to reserves, is fully collectible. Furthermore, the Company believes that this arbitration will conclude sometime in the first half of the Company's fiscal 2019. While the Company believes the customer's counter claims to be frivolous and without merit, it can give no assurances that it will ultimately not have to pay all or a portion of such claims. The Company is continuing work on one of the engagements that have given rise to this dispute and also on several engagements from the same client that are not currently part of the arbitration.

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.

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

17. Severance, Professional Fees and Other Charges

The Company recorded \$1.4 million in severance, professional fees and other charges for the thirty-nine week period ended September 29, 2018. These charges include severance accrued for the Company's former chief executive officer and related payroll taxes, continuation of certain benefits and professional fees, totaling approximately \$0.9 million. The additional charges of \$0.5 million incurred related to transactional financial advisory fees, legal fees associated with defending an ongoing lawsuit with a competitor of the Company, and search fees associated with hiring a senior executive. The Company did not incur any such charges in the comparable prior year period.

18. Subsequent Events

Effective October 1, 2018, the Company acquired substantially all of the assets of Thermal Kinetics Engineering, PLLC and Thermal Kinetics Systems, LLC (together, "TKE"). TKE provides full service process equipment supply, engineering, development, and design services to the chemical, food processing and industrial manufacturing industries. The Company paid approximately \$3.7 million in upfront consideration, including \$1.8 million in cash and 440,751 shares of the Company's common stock, and will pay additional contingent consideration of up to a maximum of \$7.6 million over the next three years.

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

Private Securities Litigation Reform Act Safe Harbor Statement

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

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

Critical Accounting Policies and Use of Estimates

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our unaudited interim condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. In our unaudited interim condensed consolidated financial statements, estimates are used for, but not limited to, accounts receivable and allowance for doubtful accounts, goodwill, long-lived intangible assets, accounting for stock options and restricted stock units, insurance liabilities, accounting for income taxes and accrued bonuses.

A summary of our significant accounting policies is included in our Consolidated Financial Statements, Note 1, Summary of Significant Accounting Policies, in our Annual Report on Form 10-K for the year ended December 30, 2017. Certain of our accounting policies are considered critical, as these policies require significant, difficult or complex judgments by management, often requiring the use of estimates about the effects of matters that are inherently uncertain. Such policies are summarized in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 30, 2017.

Recently Issued Accounting Pronouncements

A discussion of the recently issued accounting pronouncements is set forth in Note 13, New Accounting Standards, in the unaudited interim condensed consolidated financial statements included in Part I, Item I of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

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.



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

Thirteen Week Period Ended September 29, 2018 Compared to Thirteen Week Period Ended September 30, 2017

A summary of operating results for the thirteen week periods ended September 29, 2018 and September 30, 2017 is as follows (in thousands):

|                                                         | September 29, 2018 |              | September 30, 2017 |              |
|---------------------------------------------------------|--------------------|--------------|--------------------|--------------|
|                                                         | Amount             | % of Revenue | Amount             | % of Revenue |
| Revenues                                                | \$42,559           | 100.0        | \$43,827           | 100.0        |
| Cost of services                                        | 31,571             | 74.2         | 32,109             | 73.3         |
| Gross profit                                            | 10,988             | 25.8         | 11,718             | 26.7         |
| Selling, general and administrative                     | 9,412              | 22.1         | 9,700              | 22.1         |
| Depreciation and amortization                           | 344                | 0.8          | 422                | 1.0          |
|                                                         | 9,756              | 22.9         | 10,122             | 23.1         |
| Operating income                                        | 1,232              | 2.9          | 1,596              | 3.6          |
| Interest expense, net and foreign currency transactions | (295)              | (0.7)        | (154)              | (0.3)        |
| Income before income taxes                              | 937                | 2.2          | 1,442              | 3.3          |
| Income tax expense                                      | 253                | 0.6          | 422                | 1.0          |
| Net income                                              | \$684              | 1.6          | \$1,020            | 2.3          |

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarters ended September 29, 2018 and September 30, 2017 consisted of thirteen weeks each.

Revenues. Revenues decreased 2.9%, or \$1.3 million, for the thirteen week period ended September 29, 2018 as compared to the thirteen week period ended September 30, 2017 (the "comparable prior year period"). Revenues decreased \$2.3 million in the Engineering segment, increased \$0.8 million in the Specialty Health Care segment and increased \$0.2 million in the Information Technology segment. On the last day of fiscal 2017, the Company disposed of its Microsoft Solutions Business Unit ("Microsoft Business"), which generated \$0.4 million in revenues for the thirteen week period ended September 30, 2017. 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 September 29, 2018, the Company generated total revenues from its Canadian clients of \$6.3 million in U.S. dollars at an Exchange Rate of 76.5% as compared to \$8.7 million in U.S. dollars at an Exchange Rate of 79.8% for the prior year comparable period.

Cost of Services and Gross Profit. Cost of services decreased 1.7%, or \$0.5 million, for the thirteen week period ended September 29, 2018 as compared to the comparable prior year period. Cost of services decreased due to the decrease in revenues. Cost of services as a percentage of revenues for the thirteen week periods ended September 29, 2018 and September 30, 2017 was 74.2% and 73.3%, 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)

Thirteen Week Period Ended September 29, 2018 Compared to Thirteen Week Period Ended September 30, 2017  
(Continued)

**Selling, General and Administrative.** Selling, general and administrative ("SGA") expenses were \$9.4 million for the thirteen week period ended September 29, 2018 as compared to \$9.7 million for the comparable prior year period. As a percentage of revenues, SGA expenses were 22.1% for both the thirteen week period ended September 29, 2018 and the comparable prior year period. See Segment Discussion for further information on SGA expense changes.

**Other Expense, Net.** Other expense, net consists of interest expense, unused line fees and amortized loan costs on the Company's line of credit, net of interest income and gains and losses on foreign currency transactions. Other expense, net increased to \$0.3 million as compared to \$0.2 million for the comparable prior year period. The primary component of the increase was interest expense which increased due to increased borrowings under the Company's line of credit. The primary reason for the increased borrowing was to fund the Company's \$12.2 million cash dividend paid in December 2017.

**Income Tax Expense.** The Company recognized \$0.3 million of income tax expense for the thirteen week period ended September 29, 2018, as compared to \$0.4 million for the comparable prior year period. The consolidated effective income tax rate for the current period was 27.0% as compared to 29.3% for the comparable prior year period. The projected fiscal 2018 income tax rates as of September 29, 2018 were approximately 28.1%, 26.5% and 15.2% in the United States, Canada and Serbia, 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 and Serbian pretax income versus U.S. pretax income. The Company did not have Serbian operations for the comparable prior year period. The consolidated effective income tax rate for the thirteen week period ended September 29, 2018 was lower than the comparable prior year period primarily due to the reduction of the Company's United States federal income tax rate to 21.0% from 34.0% as provided for in the Tax Cuts and Jobs Act and the impact of its Serbian operations acquired in October 2017. The impact from the change in the federal income tax rate in the United States in 2018 was offset by a higher ratio of Canadian pretax income in 2017 as compared to 2018.

### Segment Discussion

#### Engineering

Engineering revenues of \$19.4 million for the thirteen week period ended September 29, 2018 decreased 10.5%, or \$2.3 million, as compared to the comparable prior year period. The decrease was due to decreases in revenues of \$1.5 million from the Company's Canadian Power Systems Engineering Group and \$1.1 million from the Company's Aerospace Group, offset by an increase of \$0.3 million from the Company's Energy Services Group. Gross profit decreased 13.0%, or \$0.8 million, as compared to the comparable prior year period. Gross margin for the current period was 27.7% as compared to 28.4% for the comparable prior year period. The decrease in gross profit was primarily due to decreases in revenues and the gross margin decrease was primarily due to less favorable utilization of billable consultants on fixed price contracts as the Company naturally experiences variability in utilization. The Engineering segment operating income was \$1.4 million for the thirteen week period ended September 29, 2018 as compared to \$1.9 million for the comparable prior year period. The decrease in operating income was primarily driven by the decrease in revenues and gross profit, offset by a decrease in SGA expense of \$0.2 million. The decrease in SGA expense was primarily due a lower allocation of corporate-generated SGA expense and a Company-wide effort to more efficiently manage its SGA related expenditures.



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

Thirteen Week Period Ended September 29, 2018 Compared to Thirteen Week Period Ended September 30, 2017  
(Continued)

## Segment Discussion (Continued)

## Specialty Health Care

Specialty Health Care revenues of \$15.1 million for the thirteen week period ended September 29, 2018 increased 5.4%, or \$0.8 million, as compared to the comparable prior year period. The primary drivers of the increase in the revenues for the Specialty Health Care segment were increases of \$0.7 million from the Honolulu office, \$0.6 million from the New York City Office and \$0.5 million from the Locum Tenens Group, offset primarily by decreases of \$0.7 million from the Travel Nursing Group, \$0.1 million from the HIM practice and \$0.1 million from the Permanent Placement Group. The primary reason for revenue increases in Hawaii and New York City were incremental additions of paraprofessionals billed on school contracts. The Specialty Health Care segment's gross profit decreased by 2.5%, or \$0.1 million, to \$3.4 million for the thirteen week period ended September 29, 2018 as compared to \$3.5 million for the prior year period. The decrease in gross profit was driven by a decrease in gross profit margin. The Specialty Health Care segment's gross profit margin for the thirteen week period ended September 29, 2018 decreased to 22.8% as compared to 24.6% 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, the large increase in lower gross margin paraprofessional revenues in New York City and decreases in gross profit margin from the travel nursing staffing group, generally due to market factors including increased competition and constrained labor. Specialty Health Care experienced an operating loss of \$0.3 million for both the thirteen week period ended September 29, 2018 and comparable prior year period. SGA expense decreased by \$0.1 million, to \$3.6 million from \$3.7 million, primarily due to lower permanent placement commissions and a Company-wide effort to more efficiently manage its SGA related expenditures, offset by a higher allocation of corporate-generated SGA expense.

## Information Technology

Information Technology revenues of \$8.0 million for the thirteen week period ended September 29, 2018 increased 3.1%, or \$0.2 million, as compared to \$7.8 million for the comparable prior year period. The increase was primarily due to an increase of \$0.2 million from the Puerto Rico office. Effective the last day of fiscal 2017, the Company sold its Microsoft Business which generated \$0.4 million in revenues for the thirteen week period ended September 30, 2017. Gross profit of \$2.2 million for the thirteen week period ended September 29, 2018 increased 7.9%, or \$0.2 million, as compared to \$2.0 million for the comparable prior year period. The increase in gross profit was primarily due to the increase in revenues and improvement to gross profit margin. The Information Technology gross profit margin for the thirteen week period ended September 29, 2018 increased to 27.1% as compared to 25.9% for the comparable prior year period. The primary reason for the increase in gross profit margin was improved utilization on the Information Technology's salaried consultants. The Microsoft Business contributed \$0.1 million in gross profit in the comparable prior year period. The Information Technology segment experienced operating income of \$0.2 million for the thirteen week period ended September 29, 2018 as compared to a slight operating loss for the comparable prior year period. SGA expense was \$2.0 million for both periods presented. The Microsoft Business generated \$0.1 million in SGA expense for the comparable prior year period.

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

Thirty-Nine Week Period Ended September 29, 2018 Compared to Thirty-Nine Week Period Ended September 30, 2017

A summary of operating results for the thirty-nine week periods ended September 29, 2018 and September 30, 2017 is as follows (in thousands):

|                                                         | September 29, 2018 |              | September 30, 2017 |              |
|---------------------------------------------------------|--------------------|--------------|--------------------|--------------|
|                                                         | Amount             | % of Revenue | Amount             | % of Revenue |
| Revenues                                                | \$145,081          | 100.0        | \$135,680          | 100.0        |
| Cost of services                                        | 108,803            | 75.0         | 100,097            | 73.8         |
| Gross profit                                            | 36,278             | 25.0         | 35,583             | 26.2         |
| Selling, general and administrative                     | 29,909             | 20.6         | 30,092             | 22.2         |
| Depreciation and amortization                           | 1,156              | 0.8          | 1,229              | 0.9          |
| Severance, professional fees and other charges          | 1,371              | 1.0          | -                  | -            |
| Change in contingent consideration                      | -                  | -            | 781                | 0.5          |
|                                                         | 32,436             | 22.4         | 32,102             | 23.6         |
| Operating income                                        | 3,842              | 2.6          | 3,481              | 2.6          |
| Interest expense, net and foreign currency transactions | (990)              | (0.6)        | (371)              | (0.3)        |
| Income before income taxes                              | 2,852              | 2.0          | 3,110              | 2.3          |
| Income tax expense                                      | 736                | 0.5          | 1,351              | 1.0          |
| Net income                                              | \$2,116            | 1.5          | \$1,759            | 1.3          |

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarters ended September 29, 2018 and September 30, 2017 consisted of thirty-nine weeks each.

Revenues. Revenues increased 6.9%, or \$9.4 million, for the thirty-nine week period ended September 29, 2018 as compared to the thirty-nine week period ended September 30, 2017 (the "comparable prior year period"). Revenues increased \$0.9 million in the Engineering segment, increased \$11.4 million in the Specialty Health Care segment and decreased \$2.9 million in the Information Technology segment. On the last day of fiscal 2017, the Company disposed of its Microsoft Solutions Business Unit ("Microsoft Business"), which generated \$1.4 million in revenues for the thirty-nine week period ended September 30, 2017. 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 thirty-nine week period ended September 29, 2018, the Company generated total revenues from its Canadian clients of \$21.9 million in U.S. dollars at an Exchange Rate of 77.7% as compared to \$22.4 million in U.S. dollars at an Exchange Rate of 76.7 % for the prior year comparable period.

Cost of Services and Gross Profit. Cost of services increased 8.7%, or \$8.7 million, for the thirty-nine week period ended September 29, 2018 as compared to the comparable prior year period. Cost of services increased due to the increase in revenues. Cost of services as a percentage of revenues for the thirty-nine week periods ended September 29, 2018 and September 30, 2017 was 75.0% and 73.8%, respectively. See Segment Discussion for further information regarding changes in cost of services and gross profit.

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

Thirty-Nine Week Period Ended September 29, 2018 Compared to Thirty-Nine Week Period Ended September 30, 2017 (Continued)

**Selling, General and Administrative.** Selling, general and administrative ("SGA") expenses decreased 0.6%, or \$0.2 million, as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 20.6% for the thirty-nine week period ended September 29, 2018 and 22.2% for the comparable prior year period. See Segment Discussion for further information on SGA expense changes.

**Severance, Professional Fees and Other Charges.** The Company experienced \$1.4 million in severance, professional fees and other charges for the thirty-nine week period ended September 29, 2018. These charges include severance accrued for the Company's former chief executive officer and related payroll taxes, continuation of certain benefits and professional fees, totaling approximately \$0.9 million. The additional charges of \$0.5 million incurred related to transactional financial advisory fees, legal fees associated with defending an ongoing frivolous lawsuit with a competitor of the Company, and search fees associated with hiring a senior executive. The Company did not incur any such charges in the comparable prior year period.

**Change in Contingent Consideration.** There was no change to contingent consideration for the thirty-nine week period ended September 29, 2018. The Company incurred charges of \$0.8 million for increases to contingent consideration for the thirty-nine week period ended September 30, 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.

**Other Expense, Net.** Other expense, net consists of interest expense, unused line fees and amortized loan costs on the Company's line of credit, net of interest income and gains and losses on foreign currency transactions. Other expense, net increased to \$1.0 million as compared to \$0.4 million for the comparable prior year period. The primary component of the increase was interest expense which increased due to increased borrowings under the Company's line of credit. The primary reason for the increased borrowing was to fund the Company's \$12.2 million cash dividend paid in December 2017.

**Income Tax Expense.** The Company recognized \$0.7 million of income tax expense for the thirty-nine week period ended September 29, 2018, as compared to \$1.4 million for the comparable prior year period. The consolidated effective income tax rate for the current period was 25.8% as compared to 43.4% for the comparable prior year period. The projected fiscal 2018 income tax rates as of September 29, 2018 were approximately 28.1%, 26.5% and 15.2% in the United States, Canada and Serbia, 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 and Serbian pretax income versus U.S. pretax income. The Company did not have Serbian operations for the comparable prior year period. The consolidated effective income tax rate for the thirty-nine week period ended September 29, 2018 was lower than the comparable prior year period primarily due to the reduction of the Company's United States federal income tax rate to 21.0% from 34.0% as provided for in the Tax Cuts and Jobs Act and the impact of its Serbian operations acquired in October 2017. The consolidated effective income tax rate for the comparable prior year period is impacted by a discrete permanent difference due to the increase in contingent consideration of \$0.8 million. The consolidated effective income tax rate for the comparable prior year period after eliminating this discrete permanent difference was 37.9%.



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

Thirty-Nine Week Period Ended September 29, 2018 Compared to Thirty-Nine Week Period Ended September 30, 2017 (Continued)

Segment Discussion

Engineering

Engineering revenues of \$62.4 million for the thirty-nine week period ended September 29, 2018 increased 1.5%, or \$0.9 million, as compared to the comparable prior year period. The increase was due to an increase in revenues of \$3.9 million from the Company's Energy Services Group, offset by decreases of \$1.2 million from the Company's Canadian Power Systems Engineering Group, and \$1.8 million from the Company's Aerospace Group. Gross profit decreased 1.3%, or \$0.2 million, as compared to the comparable prior year period. Gross profit decreased because gross margin of 26.8% for the current period decreased from 27.5% for the comparable prior year period. The gross margin decrease was primarily due to less favorable utilization of billable consultants on fixed price contracts as the Company naturally experiences variability in utilization. The Engineering segment operating income was \$3.9 million for both the thirty-nine week period ended September 29, 2018 and for the comparable prior year period. SGA expense of \$12.0 million for the current period decreased by \$0.2 million primarily due a lower allocation of corporate-generated SGA expense and a Company-wide effort to more efficiently manage its SGA related expenditures.

Specialty Health Care

Specialty Health Care revenues of \$60.6 million for the thirty-nine week period ended September 29, 2018 increased 23.1%, or \$11.4 million, as compared to the comparable prior year period. The primary drivers of the increase in the revenues for the Specialty Health Care segment were increases of \$9.1 million from the New York City Office, \$3.1 million from the Honolulu office and \$0.5 million from the HIM practice, offset primarily by decreases in revenue of \$1.5 million from travel nursing staffing group and \$0.5 million from the Permanent Placement Group. The primary reason for revenue increases in New York City and Hawaii were incremental additions of paraprofessionals billed on school contracts. The Company primarily attributes the decline in revenue from its travel nursing staffing group to increased competition from large national competitors. The Specialty Health Care segment's gross profit increased by 13.5%, or \$1.6 million, to \$13.8 million for the thirty-nine week period ended September 29, 2018 as compared to \$12.2 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 thirty-nine week period ended September 29, 2018 decreased to 22.7% as compared to 24.7% 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, the large increase in lower gross margin paraprofessional revenues in New York City and decreases in gross profit margin from the travel nursing staffing group, generally due to market factors including increased competition and constrained labor. Specialty Health Care experienced operating income of \$1.2 million for the thirty-nine week period ended September 29, 2018 as compared to \$0.5 million for the comparable prior year period. The primary reason for the increase in operating income was the increase to gross profit, offset by an increase of \$0.8 million in SGA expense. SGA expense increased primarily due to the need to increase SGA infrastructure expense in order to support the increased activity levels associated with higher revenues and a higher allocation of corporate-generated SGA expense.

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

Thirty-Nine Week Period Ended September 29, 2018 Compared to Thirty-Nine Week Period Ended September 30, 2017 (Continued)

Segment Discussion (Continued)

Information Technology

Information Technology revenues of \$22.1 million for the thirty-nine week period ended September 29, 2018 decreased 11.5%, or \$2.9 million, as compared to \$25.0 million for the comparable prior year period. The decrease was primarily from reductions in project revenues from several large clients that were not replaced. Effective the last day of fiscal 2017, the Company sold its Microsoft Business which generated \$1.4 million in revenues for the thirty-nine week period ended September 30, 2017. Gross profit of \$5.8 million for the thirty-nine week period ended September 29, 2018 decreased 11.1%, or \$0.7 million, as compared to \$6.5 million for the comparable prior year period. The decrease in gross profit was primarily due to the decrease in revenues, offset by a small increase in gross profit margin. The Information Technology gross profit margin for the thirty-nine week period ended September 29, 2018 was 26.3% as compared to 26.1% for the comparable prior year period. The Microsoft Business contributed \$0.3 million in gross profit for the comparable prior year period. The Information Technology segment experienced operating income of \$0.1 million in the current period as compared to an operating loss of \$0.1 million for the comparable prior year period. The current year reflects a decrease in SGA expense of \$0.8 million. The decrease in SGA expense was primarily due to lower selling costs associated with lower revenue and gross profit, a focus on rightsizing SGA expense and also a lower allocation of corporate SGA expense. The Microsoft Business generated \$0.3 million in SGA expense for the comparable prior year period.

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

Liquidity and Capital Resources

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

|                                | Thirty-Nine Week Periods<br>Ended |                       |
|--------------------------------|-----------------------------------|-----------------------|
|                                | September 29,<br>2018             | September 30,<br>2017 |
| Cash provided by<br>(used in): |                                   |                       |
| Operating activities           | \$2,064                           | \$6,956               |
| Investing activities           | (\$1,423                          | )(\$743               |
| Financing activities           | (\$2,735                          | )(\$5,621             |

Operating Activities

Operating activities provided \$2.1 million of cash for the thirty-nine week period ended September 29, 2018 as compared to providing \$7.0 million in the comparable prior year period. The major components of cash provided by or used in operating activities in the thirty-nine week period ended September 29, 2018 and the comparable prior year period are as follows: net income and changes in accounts receivable, the net of transit accounts payable and transit accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses and accrued payroll and related costs.

Net income for the thirty-nine week period ended September 29, 2018 was \$2.1 million as compared to \$1.8 million for the comparable prior year period. An increase in accounts receivables in the thirty-nine week period ended September 29, 2018 used \$1.7 million of cash as compared to providing \$3.7 million in the comparable prior year period. The Company attributes the increase in accounts receivables for the thirty-nine week period ended September 29, 2018 to several different clients in both its Engineering and Specialty Health Care segments that experienced temporary delays in its approval and payment processes. The Company anticipates that its accounts receivable balance relative to revenues will improve during the fourth quarter of fiscal 2018 and fiscal 2019.

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 payable of \$0.1 million and \$1.7 million as of September 29, 2018 and December 30, 2017, respectively, so the cash impact during the thirty-nine week period ended September 29, 2018 used \$1.6 million in cash. The net of transit accounts payable and transit accounts receivable was a net liability of \$1.3 million and \$2.5 million as of September 30, 2017 and December 31, 2016, respectively, so the cash impact during the thirty-nine week period ended September 30, 2017 used \$1.2 million in cash.

Prepaid expenses and other current assets used \$0.6 million of cash for the thirty-nine week period ended September 29, 2018 and provided \$0.2 million for the comparable prior year period. The Company attributes changes to prepaid expenses and other current assets, if any, to general timing of payments in the normal course of business.

A decrease in accounts payable and accrued expenses used \$0.2 million for the thirty-nine week period ended September 29, 2018 as compared to \$1.3 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.

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

Liquidity and Capital Resources (Continued)

Operating Activities (Continued)

Changes in accrued payroll and related costs for the thirty-nine week periods ended September 29, 2018 and September 30, 2017 provided \$0.9 million and used \$0.2 million in cash, respectively. A large portion of current period cash provided from changes in accrued payroll and related costs consists of \$0.9 million in severance and related costs accrued for payment to the Company's former chief executive officer. 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 payroll 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 sometimes 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 thirty-nine week period ended September 29, 2018 was paid on September 28, 2018.

Investing Activities

Investing activities used cash of \$1.4 million and \$0.7 million for the thirty-nine week periods ended September 29, 2018 and September 30, 2017, respectively. Investing activities for both periods presented were primarily related to expenditures for property and equipment.

Financing Activities

Financing activities used \$2.7 million of cash for the thirty-nine week period ended September 29, 2018 as compared to using \$5.6 million in the comparable prior year period. The Company made net repayments under its line of credit of \$2.8 million during the thirty-nine week period ended September 29, 2018 as compared to net repayments of \$4.9 million in the comparable prior year period. The Company generated cash of \$0.4 million from sales of shares from its equity plans for both periods presented.

The Company and its subsidiaries amended and restated its Revolving Credit Facility with Citizens Bank of Pennsylvania on August 9, 2018. As amended and restated, the Revolving Credit Facility now provides for a \$45.0 million revolving credit facility (increased from \$40.0 million), no longer has a sub-limit for letters of credit (from a sub-limit of \$5.0 million) and expires on August 8, 2023. The amended and restated Revolving Credit Facility provides the Company with waivers from certain financial covenant calculations of up to \$1.4 million in the borrowers' fiscal year ending on December 31, 2018 for certain expenses, including severance accrued for the Company's former chief executive officer and related payroll taxes, continuation of certain benefits and professional fees, charges incurred related to transactional financial advisory fees, legal fees associated with defending an ongoing frivolous lawsuit with a competitor of the Company, and search fees associated with hiring a senior executive. Except as noted, all material terms remain unchanged.

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 weighted average interest rate, including unused line fees, for the thirty-nine week period ended September 29, 2018 was 3.8%.

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

Liquidity and Capital Resources (Continued)

Financing Activities (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 September 29, 2018, the Company was in compliance with all covenants contained in the Revolving Credit Facility.

Borrowings under the line of credit as of September 29, 2018 and December 30, 2017 were \$24.5 million and \$27.3 million, respectively. At September 29, 2018 and December 30, 2017 there were letters of credit outstanding for \$0.8 million. At September 29, 2018, the Company had availability for additional borrowings under the Revolving Credit Facility of \$19.7 million.

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 has a dispute with a customer that is a major utility in the United States. Essentially, the customer has not paid the balance of accounts receivable the Company believes are owed for certain disputed projects. The Company recently started arbitration hearings with this customer. As of September 29, 2018 the total amount of outstanding receivables from this customer was \$6.2 million, subject to potential upward adjustment in damages claimed in the arbitration. Additionally, as part of the arbitration process, the customer has asserted counter claims. While the total amount of asserted counter claims is unknown as of September 29, 2018, the total amount is anticipated to at least exceed \$11.5 million. The Company believes these counter claims were retaliatory in nature. Prior to the arbitration, the customer had not asserted any claims. The Company believes these asserted claims have no merit and were merely asserted as a strategy to reduce the Company's claims in any arbitration award or potential settlement agreement. The Company believes that its accounts receivable balance, subject to reserves, is fully collectible. Furthermore, the Company believes that this arbitration will conclude sometime in the first half of the Company's fiscal 2019. While the Company believes the customer's counter claims to be frivolous and without merit,

it can give no assurances that it will ultimately not have to pay all or a portion of such claims. The Company is continuing work on one of the engagements that have given rise to this dispute and also on several engagements from the same client that are not currently part of the arbitration.

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

Liquidity and Capital Resources (Continued)

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 may undertake a comprehensive review of the system during fiscal 2019. The Company estimates this upgrade or replacement of their financial reporting and accounting 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 Ending             | Amount  |
|---------------------------------|---------|
| 2018 (after September 29, 2018) | \$903   |
| 2019                            | 1,813   |
| 2020                            | 1,149   |
| 2021                            | 618     |
| 2022                            | 339     |
| Total                           | \$4,822 |

Future Contingent Payments

As of September 29, 2018, the Company had three 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 July 5, 2015, the Company acquired certain assets of Substation Design Services, LLC ("SDS"); and 3) effective October 1, 2017, the Company acquired all of the stock of PSR Engineering Solutions d.o.o. Beograd (Voždovac) ("PSR"). The Company estimates future contingent payments at September 29, 2018 as follows:

| Fiscal Years Ending                                | Total   |
|----------------------------------------------------|---------|
| December 29, 2018 (after September 29, 2018)       | \$553   |
| December 28, 2019                                  | 450     |
| January 2, 2021                                    | 730     |
| Estimated future contingent consideration payments | \$1,733 |

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 \$2.4 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 September 29, 2018. 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. There was no change in the fair value of contingent consideration for the thirty-nine week period ended September 29, 2018.

Effective October 1, 2018, the Company acquired substantially all of the assets of Thermal Kinetics Engineering, PLLC and Thermal Kinetics Systems, LLC (together, "TKE"). TKE provides full service process equipment supply, engineering, development, and design services to the chemical, food processing and industrial manufacturing industries. The Company paid approximately \$3.7 million in upfront consideration, including \$1.8 million in cash and 440,751 shares of the Company's common stock, and will pay additional contingent consideration of up to a maximum of \$7.6 million over the next three years.

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### 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 the Revolving Credit Facility. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of September 29, 2018, 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 thirty-nine week period ended September 29, 2018, 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 \$0.3 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 were no changes in the Company's internal control over financial reporting during the quarter ended September 29, 2018, that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

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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" sections (Item 1A) of the Company's Annual Report on Form 10-K for the year ended December 30, 2017 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.

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

- 10(a)\* Third Amended & Restated Loan and Security Agreement, dated as of August 9, 2018, by and among the Company and all of its subsidiaries, Citizens Bank of Pennsylvania, a Pennsylvania state chartered bank, in its capacity as administrative agent and arranger, and Citizens Bank of Pennsylvania, as lender; incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018.
- 31.1\* Certification of Principal Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2\* Certification of Principal Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1\*\* Certification of Principal 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 Principal 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

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\* Filed herewith

\*\* Furnished herewith

RCM TECHNOLOGIES, INC.

SIGNATURES

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

RCM Technologies, Inc.

Date: November 9, 2018 By: /s/ Bradley S. Vizi  
Bradley S. Vizi  
Executive Chairman and President  
(Principal Executive Officer and  
Duly Authorized Officer of the Registrant)

Date: November 9, 2018 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, Bradley S. Vizi, 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/ Bradley S. Vizi

Date: November 9, 2018 Bradley S. Vizi  
Executive Chairman and President

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: November 9, 2018 Kevin D. Miller  
Chief Financial Officer

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Exhibit 32.1

RCM TECHNOLOGIES, INC.

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

I, Bradley S. Vizi, Executive Chairman and President of RCM Technologies, Inc., a Nevada corporation (the "Company"), hereby certify that, to my knowledge:

- (1) The Company's periodic report on Form 10-Q for the quarter ended September 29, 2018 (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/ Bradley S. Vizi  
Bradley S. Vizi  
Executive Chairman and President

Date: November 9, 2018

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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 September 29, 2018 (the "Form 10-Q") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

\* \* \*

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

Date: November 9, 2018

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