RCM Technologies®

The Source of Smart Solutions®

2011 ANNUAL REPORT

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from .... to ....

Commission file number 1-10245

RCM TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	**95-1480559** (I.R.S. Employer Identification No.)
2500 McClellan Avenue, Suite 350, **Pennsauken, New Jersey** (Address of Principal Executive Offices)	**08109-4613** (Zip Code)
Registrant's telephone number, including area code:	**(856) 356-4500**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.05 per share	The NASDAQ Stock Market LLC
Securities registered pursuant to Section 12(g) of the Act:	None

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $56.5 million based upon the closing price of $5.35 per share of the registrant’s common stock on July 1, 2011 on The NASDAQ Global Market. For purposes of making this calculation only, the registrant included all directors, executive officers and beneficial owners of more than 10% of the Common Stock of the Company as affiliates.

The number of shares of registrant's common stock (par value $0.05 per share) outstanding as of February 22, 2012: 12,788,067.

Documents Incorporated by Reference

Portions of the definitive proxy statement for the registrant's 2012 Annual Meeting of Stockholders (the “2012 Proxy Statement”) are incorporated by reference into Items 10, 11, 12, 13 and 14 in Part III of this Annual Report on Form 10-K. If the 2012 Proxy Statement is not filed by April 30, 2012 (the first business day following the day that is 120 days after the last day of the registrant’s 2011 fiscal year), an amendment to this annual report on Form 10-K setting forth this information will be duly filed with the Securities and Exchange Commission.

RCM TECHNOLOGIES, INC.

FORM 10-K

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Private Securities Litigation Reform Act Safe Harbor Statement

Certain statements included herein and in other reports and public filings made by RCM Technologies, Inc. ("RCM" or the "Company") are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements regarding the adoption by businesses of new technology solutions; the use by businesses of outsourced solutions, such as those offered by the Company, in connection with such adoption; the Company's business initiatives and growth strategies; and the outcome of litigation (at both the trial and appellate levels) involving the Company. Readers are cautioned that such forward-looking statements, as well as others made by the Company, which may be identified by words such as "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "believe," and similar expressions, are only predictions and are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially from such statements. Such risks and uncertainties include, without limitation: (i) unemployment and general economic conditions affecting the provision of information technology and engineering services and solutions and the placement of temporary staffing personnel; (ii) the Company's ability to continue to attract, train and retain personnel qualified to meet the requirements of its clients; (iii) the Company's ability to identify appropriate acquisition candidates, complete such acquisitions and successfully integrate acquired businesses; (iv) uncertainties regarding amounts of deferred consideration and earnout payments to become payable to former shareholders of acquired businesses; (v) 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; (vi) the Company's ability to obtain financing on satisfactory terms; (vii) the reliance of the Company upon the continued service of its executive officers; (viii) the Company's ability to remain competitive in the markets that it serves; (ix) the Company's ability to maintain its unemployment insurance premiums and workers compensation premiums; (x) the risk of claims being made against the Company associated with providing temporary staffing services; (xi) the Company's ability to manage significant amounts of information and periodically expand and upgrade its information processing capabilities; (xii) the Company's ability to remain in compliance with federal and state wage and hour laws and regulations; (xiii) uncertainties in predictions as to the future need for the Company's services; (ix) uncertainties relating to the allocation of costs and expenses to each of the Company's operating segments; (xv) the costs of conducting and the outcome of litigation involving the Company, and the applicability of insurance coverage with respect to any such litigation; and (xvi) 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 1. BUSINESS

General

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

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

The Company services some of the largest national and international companies in North America as well as a lengthy roster of Fortune 1000 and mid-sized businesses in such industries as Aerospace/Defense, Energy, Financial Services, Life Sciences, Manufacturing & Distribution, the Public Sector and Technology. RCM believes it offers a range of solutions that fosters long-term client relationships, affords cross-selling opportunities, and minimizes the Company's dependence on any single technology or industry sector. RCM sells and delivers its services through a network of 30 offices in selected regions throughout North America.

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

During the fiscal year ended December 31, 2011, approximately 37.4% of RCM's total revenues were derived from IT services, 43.6% from Engineering services, and the remaining 19.0% from Specialty Health Care services.

Demand for the Company's services can be significantly impacted by changes in the general level of economic activity and particularly technology spending. During periods of reduced economic activity, such as the environment in the United States and the world in general since approximately mid-2007 and continuing through fiscal 2011, the Company may also be subject to increased pricing pressure in its markets due to reduced spending by clients and potential clients of the Company. Extended periods of weakness in the economy can have a material adverse impact on the Company's business and results of operations. Accordingly, the Company's operations have been adversely impacted by the continuing economic downturn that began in the middle of 2007.

Industry Overview

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

Industry Overview (Continued)

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

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

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

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

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

Business Strategy

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

Growth Strategy

Promote Full Life Cycle Solution Capability

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

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

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

Achieve Internal Growth

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

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

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

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

Pursue Selective Strategic Acquisitions

The industry in which the Company operates continues to be highly fragmented, and the Company plans to continue to selectively assess opportunities to make strategic acquisitions as such opportunities are presented to the Company. The Company's acquisition strategy is designed to broaden the scope of services and technical competencies and grow its full life cycle solution capabilities. In considering acquisition opportunities, the Company focuses principally on companies with (i) technologies or market segments RCM has targeted for strategic value enhancement, (ii) margins that are accretive to existing margins, (iii) experienced management personnel, (iv) substantial growth prospects and (v) sellers who desire to join the Company's management team. To retain and provide incentives for management of its acquired companies, the Company has generally structured a significant portion of the acquisition price in the form of multi-tiered consideration based on growth of operating profitability of the acquired company over a two to four year period.

Operating Strategy

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

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

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

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

To accomplish this, the Company's financial reporting and accounting systems are centralized in the Company's operational headquarters in Parsippany, NJ. The systems have been configured to perform all back office functions, including payroll, project management, project cost accounting, billing, human resource administration and financial reporting and consolidation. The Company anticipates upgrading its financial reporting and accounting system platform in fiscal year 2012.

Information Technology

The Company's IT segment is comprised of two business groups – the IT Consulting Business Group and the IT Solutions Business Group. The IT Consulting Business Group consists of business units in the US, Canada and Puerto Rico primarily supporting Financial, Technical, Manufacturing, Distribution and Government applications. The IT Solutions Business Group consists of six business units:

- Enterprise Infrastructure Management
- Enterprise Integration
- Enterprise Supply Chain
- Enterprise Project Management
- Enterprise HR
- Life Sciences

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

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

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

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

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

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

As of December 31, 2011, the Company assigned approximately 440 information technology employees and consultants to its customers.

Engineering

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

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

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

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

As of December 31, 2011, the Company assigned approximately 500 engineering and technical employees and consultants to its customers.

Specialty Health Care

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

As of December 31, 2011, the Company assigned approximately 430 specialty health care services personnel to its customers.

Branch Offices

The Company's organization consists of 30 branch offices located in the United States, Canada and Puerto Rico. The locations and services of each of the branch offices are set forth in the table below.

LOCATION	NUMBER OF OFFICES	SERVICES PROVIDED(1)
USA		
Arizona	1	HC
California	2	IT, HC
Connecticut	1	E
Florida	1	HC
Kentucky	1	HC
Illinois	1	HC
Maryland	1	IT
Michigan	3	IT, E
Minnesota	1	IT
New Jersey	3	IT, E
New Mexico	1	HC
New York	3	IT, E, HC
Ohio	1	IT
Pennsylvania	1	HC
Rhode Island	1	E
Tennessee	1	HC
Texas	1	IT
Wisconsin	2	IT, E
	26	
CANADA	3	IT, E
PUERTO RICO	1	IT

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

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

Branch Offices (Continued)

The Company is domiciled in the United States and its segments operate in the United States, Canada and Puerto Rico. The Company closed its Ireland office in December 2011. Revenues for the fiscal year ended December 31, 2011 and total assets by geographic area as of December 31, 2011 are as follows ($ in thousands):

	Revenues	Total Assets
United States	$118,729	$73,314
Canada	22,880	12,204
Puerto Rico	2,180	654
Ireland	22	6
	$143,811	$86,178

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

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

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

Sales and Marketing

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

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

Sales and Marketing (Continued)

The Company’s larger representative customers include 3M, ADP, Aetna, Aramark, Bimbo Bakeries, USA, Bristol Myers Squibb, Bruce Power Limited Partnership (“Bruce Power”), Bruckner Supply Company, Con Edison, Covidien, Entergy, Exelon Nuclear, FlightSafety International, IBM, Johnson and Johnson, Lilly del Caribe, Merck, Microsoft, New York City Department of Education, New York Power Authority, Ontario Power Generation, Pfizer, Pragmatics, PSE&G, United Technologies Corporation, U.S. Department of the Treasury, Vermont Yankee Nuclear Power and Warner Chilcott. The Company serves Fortune 1000 companies and many middle market clients. The Company's relationships with these customers are typically formed at the customers’ local or regional level and from time to time, when appropriate, at the corporate level for national accounts.

During the fiscal year ended December 31, 2011, United Technologies Corporation and Bruce Power accounted for 12.6% and 10.4% of the Company’s revenues, respectively. No other customer accounted for 10% or more of the Company’s revenues in that period. The Company's five, ten and twenty largest customers accounted for approximately 38.2%, 47.7% and 57.7%, respectively, of the Company's revenues for the fiscal year ended December 31, 2011.

Recruiting and Training

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

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

Information Systems

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

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

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

Information Systems (Continued)

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

RCM's messaging architecture is currently based on the Microsoft Exchange 2007 and Cisco Unity platform. The current mail system is comprised of redundant mail routing servers and clustered mailbox servers attached to a Storage Area Network (SAN) This messaging platform has the current capacity of six Terabytes (TB), with the capability of scaling to 18 Terabytes (TB). In addition to mail storage being sized for VOIP integration, web access to the mail server is only allowed via secure HTTPs protocol. Augmenting the messaging architecture is a mail archiving solution by GFI to accommodate disaster recovery, compliance and litigation requirements. RCM anticipates it will upgrade to Microsoft Exchange 2010, currently in pilot phase, in order to capitalize on the platform increased flexibility and high availability features. Deployment to the production environment is scheduled sometime in the fiscal year ending December 31, 2012.

The Company has upgraded the ERP hardware, Application and Operating system, to accommodate its growing needs. The branch offices of the Company are networked to the corporate offices via private circuits, which enable the ERP application to be accessed securely at all operational locations. The ERP system supports Company-wide operations such as payroll, billing, human resources, project systems, accounts receivable, accounts payable, all general ledger accounting, budgeting and consolidation reporting functionality. The Company has concluded that an upgrade of the current version to SAP ECC60 is the best fit for RCM's business needs and anticipates beginning an upgrade sometime in the fiscal year ending December 31, 2012.

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

The Company's internet presence is an integral part of its strategic initiative to improve visibility and contextualize its business offerings. The company's website has been revised, making the site more interactive, with improved web analytics. The site also utilizes Search Engine Optimization which allows for an enhanced user experience.

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

In the interest of consolidation and being green, RCM is currently deploying virtualization technology from VMware and Microsoft. The server footprint at the primary datacenter in Parsippany has been reduced by 60% without compromising systems integrity or redundancy. Implementation of V-motion, fault tolerance, high availability and centralized management, are an integral part of this solution. Green initiatives include partnerships with vendors for the recycling of used printers, toners, servers, desktops, and mobile devices.

Other Information

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

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

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

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

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

Competition

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

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

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

Seasonality

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

Government Regulations

The Company is a consulting firm and employment service provider, and is generally subject to one or more of the following types of government regulation: (1) regulation of the employer/employee relationship between a firm and its employees, including tax withholding or reporting, social security or retirement, benefits, workplace compliance, wage and hour, anti-discrimination, immigration and workers' compensation; (2) registration, licensing, record keeping and reporting requirements; and (3) federal contractor compliance. The Company believes it is in material compliance with all employee related statutes.

Intellectual Property

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

Employees

As of December 31, 2011, the Company employed an administrative, sales, recruiting and management staff of approximately 190 people, including certified IT specialists and licensed engineers who, from time to time, participate in IT and engineering design projects undertaken by the Company. As of December 31, 2011, there were approximately 440 information technology and 500 engineering and technical employees and consultants assigned by the Company to work on client projects for various periods. As of December 31, 2011, there were approximately 430 specialty health care services employees assigned to clients. None of the Company's employees is represented by a collective bargaining agreement. The Company considers its relationship with its employees to be good.

Access to Company Information

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

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

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

ITEM 1A. RISK FACTORS

The Company's business involves a number of risks, some of which are beyond its control. The risk and uncertainties described below are not the only ones the Company faces. Set forth below is a discussion of the risks and uncertainties that management believes to be material to the Company.

Economic Trends

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

Government Regulations

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

Highly Competitive Business

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

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

Events Affecting Significant Customers

As disclosed in "Item 1. Business," the Company's five, ten and twenty largest customers accounted for approximately 38.2%, 47.7% and 57.7%, respectively, of revenues for the fiscal year ended December 31, 2011. Some of these customers may be affected by the current state of the economy or developments in the credit markets. The Company's customers may engage in mergers or similar transactions. In addition, customers may choose to reduce the business they do with RCM for other reasons or no reason. Should any significant customers experience a downturn in their business that weakens their financial condition or merge with another company or otherwise cease independent operation, or limit their relationship with us, it is possible that the business that the customer does with the Company would be reduced or eliminated, which could adversely affect financial results.

Safety Concerns Regarding Nuclear Power Plants

Especially in light of the Fukushima Daiichi nuclear plant malfunction that occurred in March 2011, new and existing concerns are being expressed in public forums about the safety of nuclear generating units and nuclear fuel. Among other things, these concerns have led to, and are expected to continue to lead to, various proposals to regulators and governing bodies in some localities where nuclear facilities are located for legislative and regulatory changes that could lead to the shut-down of nuclear units, denial of license renewal applications, municipalization of nuclear units, restrictions on nuclear units or other adverse effects on owning and operating nuclear generating units. Should these concerns or proposals lead to a diminishment of or reduced growth in the nuclear power industry, the Company's Engineering segment, which has a focus on the nuclear power industry, could be harmed, and the Company's business, financial condition and results of operations could be materially adversely affected.

Subcontractors, Transit Accounts Receivable and Transit Accounts Payables Related to Construction Management Contracts

The Company's Engineering segment has entered into arrangements to provide construction management and engineering services to customers under which arrangements the Company then engages subcontractors to provide the construction services. Ultimately, as a primary contractor, the Company is responsible for the nonperformance or negligence of its subcontractors, whom the Company requires to be adequately insured and to issue performance bonds for their assignment. Should a subcontractor not perform or act negligently and should there be inadequate insurance or performance bonds in place, the Company might not be able to mitigate its primary liability to the customer, and the Company's business, financial condition and results of operations could be materially adversely affected. In addition, while payments to subcontractors typically are due from the Company only after the Company receives payment from the ultimate customer, the Company faces the risk that, should a customer not pay the Company, or should a subcontractor demand payment from the Company prior to the Company's receipt of payment from its customer, the Company's business, financial condition and results of operations could be materially adversely affected.

Dependence Upon Personnel

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

Revolving Credit Facility and Liquidity

If the Company was unable to borrow under its Revolving Credit Facility (see "Item 5. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financing Activities"), it may adversely affect liquidity, results of operations and financial condition. The Company's liquidity depends on its ability to generate sufficient cash flows from operations and, from time to time, borrowings under the Revolving Credit Facility with the Company's agent lender Citizens Bank of Pennsylvania. The Company believes that Citizens Bank is liquid and is not aware of any current risk that they will become illiquid. At December 31, 2011, the Company had no outstanding borrowings under the Revolving Credit Facility and $0.9 million outstanding under letters of credit.

The Revolving Credit Facility contains various financial and non-financial covenants. At December 31, 2011, the Company was in compliance with the covenants and other provisions of the Credit Facility. Any failure to be in compliance could have a material adverse effect on liquidity, results of operations and financial condition.

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

As of December 31, 2011, the Company had $7.3 million of goodwill and $0.2 million intangible assets on its balance sheet, which represents 8.7% of total assets. Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company is required to assess the carrying value of its reporting units that contain goodwill or intangible assets at least on an annual basis in order to determine if any impairment in value has occurred. The Company has the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. An assessment of those qualitative factors or the application of the goodwill and intangible asset impairment test requires significant judgment including but not limited to the assessment of the business, its management and general market conditions, estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill and intangible asset impairment for each reporting unit. The Company formally assesses these qualitative factors and, if necessary, conducts its annual goodwill and intangible asset impairment test as of the last day of the Company's fiscal November each year, or more frequently if indicators of impairment exist. The Company periodically analyzes whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in share price and market capitalization, a decline in expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, a material change in management or other key personnel and/or slower expected growth rates, among others. There can be no assurance that future qualitative factors or, if necessary, tests of goodwill and intangible asset impairment will not result in impairment charges. If the Company is required to write down goodwill or intangible assets, the related charge could materially reduce reported net income or result in a net loss for the period in which the write down occurs.

Workers' Compensation and Employee Medical Insurance

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

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

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

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

Acquisitions May Not Succeed

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

International Operations

The Company operates its business in Canada and, to a less significant extent, in Puerto Rico. The Company closed its Ireland office in December 2011. For the fiscal year ended December 31, 2011, approximately 17.4% of the Company's revenues were generated outside the United States. There are certain risks inherent in conducting business internationally including: the imposition of trade barriers, foreign exchange restrictions, longer payment cycles, greater difficulties in accounts receivables collection, difficulties in complying with a variety of foreign laws, changes in legal or regulatory requirements, difficulties in staffing and managing foreign operations, political instability and potentially adverse tax consequences. To the extent the Company experiences these risks, the business and results of operations could be adversely affected.

Foreign Currency Fluctuations and Changes in Exchange Rates

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

Trademarks

Management believes the RCM Technologies, Inc. name is extremely valuable and important to its business. The Company endeavors to protect its intellectual property rights and maintain certain trademarks, trade names, service marks and other intellectual property rights, including The Source of Smart Solutions®. The Company is not currently aware of any infringing uses or other conditions that would be reasonably likely to materially and adversely affect the Company's use of its proprietary rights. The Company's success depends on its ability to successfully obtain and maintain, and prevent misappropriation or infringement of, its intellectual property, maintain trade secret protection, and conduct operations without violating or infringing on the intellectual property rights of third parties. Intellectual property litigation is expensive and time-consuming, and it is often difficult, if not impossible, to predict the outcome of such litigation. If the Company is involved in an intellectual property litigation, its business, financial condition and results of operations could be materially adversely affected.

Data Center Capacity and Telecommunication Links

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

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

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

ITEM 1A. RISK FACTORS (CONTINUED)

Litigation

The Company is currently, and may in the future become, involved in legal proceedings and claims arising from time to time in the course of its business. An adverse outcome in any such litigation could have an adverse impact on the consolidated financial position, consolidated results of operations and cash flows of the Company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company provides specialty professional consulting services, principally performed at various client locations, through 30 administrative and sales offices located in the United States, Puerto Rico and Canada. The majority of the Company's offices typically consist of 1,000 to 15,000 square feet and are typically leased by the Company for terms of one to three years. Offices in larger or smaller markets may vary in size from the typical office. The Company does not expect that it will be difficult to maintain or find suitable lease space at reasonable rates in its markets or in areas where the Company contemplates expansion.

The Company's executive office is located at 2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613. These premises consist of approximately 11,200 square feet and are leased at a rate of approximately $14.50 per square foot per annum for a term ending on August 31, 2012.

The Company's operational office is located at 20 Waterview Boulevard, 4th Floor, Parsippany, NJ 07054-1271. These premises consist of approximately 28,000 square feet and are leased at a rate of approximately $29.00 per square foot per annum for a term ending on June 30, 2012. The Company currently subleases approximately 12,000 square feet in its Parsippany, NJ office.

ITEM 3. LEGAL PROCEEDINGS

Included in the Company's accounts payable and accrued expenses is a provision for losses from legal matters aggregating approximately $0.3 million as of December 31, 2011. Asserted claims in these matters seek approximately $13.4 million in damages as of December 31, 2011.

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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

Shares of the Company's common stock are traded on The NASDAQ Global Market under the Symbol "RCMT." The following table sets forth approximate high and low sales prices for the two years in the period ended December 31, 2011 as reported by The NASDAQ Global Market:

	Common Stock	
Fiscal Year Ended January 1, 2011	**High**	**Low**
First Quarter	$3.60	$2.35
Second Quarter	$5.23	$3.12
Third Quarter	$5.29	$4.25
Fourth Quarter	$5.30	$4.36
Fiscal Year Ended December 31, 2011		
First Quarter	$5.20	$4.23
Second Quarter	$5.93	$5.00
Third Quarter	$5.65	$3.98
Fourth Quarter	$5.40	$4.00

Holders

As of February 3, 2012, the approximate number of holders of record of the Company's Common Stock was 471. Based upon the requests for proxy information in connection with the Company's 2011Annual Meeting of Stockholders, the Company believes the number of beneficial owners of its Common Stock is approximately 2,125.

Dividends

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

Stock Repurchase by Issuer

The following table provides information relating to the Company's repurchases of common stock during the fourth quarter of the fiscal year ended December 31, 2011 under the share repurchase program authorized by our Board of Directors in February 2010 and extended by our Board of Directors in February 2011.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
October 2 – November 1	115,765	$4.48	115,765	$4,937,000
November 2 – December 1	28,878	$5.01	28,878	$4,793,000
December 2 – December 31	1,207	$5.01	1,207	$4,787,000
Total	145,850	$4.59	145,850	$4,787,000

ITEM 6. SELECTED FINANCIAL DATA

Not required.

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

Overview

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

The Company experienced a significant decrease in revenues during the fiscal year ended December 31, 2011 as compared to the comparable prior year period. The Company believes that the revenue decrease was primarily attributable to subpar performance in sales efforts (which the Company continues to take steps to remediate) in the Company's Information Technology segment and declines, resulting from general economic conditions, in the spending of its major Engineering segment clients, as further discussed in the Segment Discussion below. While the Company believes general economic conditions and overall market conditions for its Information Technology and Specialty Health Care segments have improved slightly from their recessionary lows, the Company is cautious regarding expectations for 2012 and beyond as the Company believes that any general economic or market recovery may be slow and/or tenuous.

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

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

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

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

Overview (Continued)

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, 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.

Critical Accounting Policies

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

Revenue Recognition

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

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

Revenue Recognition (Continued)

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

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

Transit Receivables and Transit Payables - 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) engages subcontractors to provide construction services; b) typically earns a fixed percentage of the total project value as a fee and c) assumes no ownership or risks of inventory. In such situations, the Company acts as an agent under the provisions of "Overall Considerations of Reporting Revenue Gross as a Principal versus Net as an Agent" and therefore recognizing revenue on a "net basis." The Company records revenue on a "net" basis on relevant engineering and construction management projects, which require subcontractors or transit costs. In those situations, the Company charges the client a management fee, which is reported as net revenue when earned. During the fifty-two week period ended December 31, 2011, the total gross billings, including both transit cost billings and the Company's earned fees, was $19.4 million for which the Company recognized $6.0 million of its net management fee as revenue.

Under the terms of the agreements, the Company is not required to pay the subcontractor until after the corresponding payment from the Company's client is received. Upon invoicing the end client on behalf of the subcontractor 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. At any given point in time, the Company's transit accounts receivable usually equal the transit accounts payable. However, the transit accounts payable will occasionally exceed the transit accounts receivable due to timing differences. The transit accounts receivable and related transit accounts payable were $3.0 million each as of December 31, 2011.

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

Accounts Receivable

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

The Company's allowance for doubtful accounts increased by approximately $0.2 million to $1.5 million as of December 31, 2011 from $1.3 million as of January 1, 2011.

Goodwill

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

Long-Lived and Intangible Assets

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

Accounting for Stock Options

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

Insurance Liabilities

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

Accounting for Income Taxes

In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance and estimates of future earnings. As of December 31, 2011, the Company had domestic short term deferred tax assets of $0.7 million, total domestic long term net deferred income tax assets of $2.7 million and foreign tax liability of $0.1 million. The domestic short term deferred tax assets primarily represent the tax effect of accrued expenses which will be deductible for tax purposes within a twelve month period. The domestic long term deferred tax assets represent the tax effect of temporary differences for the GAAP versus tax amortization of intangibles arising from acquisitions made in prior periods. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

The Company conducts its operations in multiple tax jurisdictions in the United States, Puerto Rico and Canada. With limited exceptions, the Company is no longer subject to audits by state and local tax authorities for tax years prior to 2007. The Company's federal income tax returns have been examined through 2007.

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

Accrued Bonuses

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

Forward-looking Information

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

Forward-looking Information (Continued)

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.

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

	Fiscal Years Ended			
	December 31, 2011		January 1, 2011	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	$143,811	100.0	$162,022	100.0
Cost of services	103,075	71.7	115,835	71.5
Gross profit	40,736	28.3	46,187	28.5
Selling, general and administrative	32,578	22.7	35,825	22.1
Depreciation and amortization	1,149	0.8	1,341	0.8
	33,727	23.5	37,166	22.9
Operating income from continuing operations	7,009	4.8	9,021	5.6
Other (expense) income, net	(78)	-	(34)	-
Income from continuing operations before income taxes	6,931	4.8	8,987	5.6
Income tax expense from continuing operations	2,653	1.8	2,570	1.6
Income from continuing operations	4,278	3.0	6,417	4.0
Loss from discontinued operations, net of tax benefit	-	-	(622)	(0.4)
Net income	$4,278	3.0	$5,795	3.6

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

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

Fiscal Year Ended December 31, 2011 Compared to Fiscal Year Ended January 1, 2011

Revenues. Revenues decreased 11.2%, or $18.2 million, for the fiscal year ended December 31, 2011 as compared to the prior fiscal year (the "comparable prior year period"). Revenues decreased $17.8 million in the Information Technology segment, decreased $1.9 million in the Engineering segment, and increased $1.5 million in the Specialty Health Care segment. See Segment Discussion for further information on revenue changes.

Cost of Services. Cost of services decreased 11.0%, or $12.8 million, for the fiscal year ended December 31, 2011 as compared to the comparable prior year period. The decrease in cost of services was primarily due to a decrease in revenues. Cost of services as a percentage of revenues increased to 71.7% for the fiscal year ended December 31, 2011 from 71.5% for the comparable prior year period. The increase in cost of services as a percentage of revenues was primarily due to a reduction in higher margin project work in the Company's Engineering segment and an increase in certain statutory payroll tax rates, particularly in the Specialty Health Care segment.

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses decreased 9.1%, or $3.2 million, for the fiscal year ended December 31, 2011 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 22.7% for the fiscal year ended December 31, 2011 as compared to 22.1% for the comparable prior year period. The decrease in SGA expenses was primarily due to a concerted effort by the Company to reduce SGA expenses. The primary components of the reduction include labor and related expenses and professional fees. The increase to SGA expenses as a percentage of revenues was primarily due to the decrease in revenues.

Other Income, Net. Other income, net consists of interest expense, unused line fees and amortized loan costs on the Company's loan agreement, net of interest income, and gains and losses on foreign currency transactions.

Income Tax Expense From Continuing Operations. The Company experienced $2.7 million of income tax expense from continuing operations for the fiscal year ended December 31, 2011 as compared to $2.6 million for the comparable prior year period. The consolidated effective income tax rate for the current year was 38.3% as compared to 28.6% for the comparable prior year period. Income tax expense from continuing operations for the fiscal year ended December 31, 2011 was reduced by $0.2 million due to a $0.6 million write-off of an investment in the Company's Ireland subsidiary, a discreet benefit of $0.5 million resulting from a prior year amended return, a $0.2 million reduction for an AMT credit carry forward from a prior year offset by a $0.5 million tax liability which related to a refund received. The comparable prior year period was reduced $1.3 due to a permanent tax difference recognized due the goodwill and intangible asset write-off associated with a closed subsidiary (the goodwill and intangible asset balance was written off for book purposes in 2008). Before considering these unique adjustments, the consolidated effective income tax rate for income from continuing operations was 43.7% for the fiscal year ended December 31, 2011 as compared to 43.5% for the comparable prior year period.

Discontinued Operations. See Note 15 to the Consolidated Financial Statements included in this report for a description of discontinued operations. The Company had no activity in its discontinued operations during the fiscal year ended December 31, 2011.

Fiscal Year Ended December 31, 2011 Compared to Fiscal Year Ended January 1, 2011 (Continued)

Segment Discussion (See Note 14 to the Consolidated Financial Statements)

Information Technology

Information Technology revenues of $53.8 million in the fiscal year ended December 31, 2011 decreased $17.8 million, or 24.8%, as compared to the prior year. The Company believes the decrease in revenue was primarily attributable to poor execution by its sales generation team, which the Company has taken, and continues to take, steps to remediate. In particular, the Information Technology segment experienced a $1.3 million decrease from its Michigan and Ohio offices and a $4.8 million decrease from its Life Sciences clients. The Information Technology segment experienced operating income of $0.7 million for the fiscal year ended December 31, 2011 as compared to $1.6 million for the prior year. The decrease in operating income was primarily attributable to the decrease in revenues.

Engineering

Engineering revenues of $62.6 million in the fiscal year ended December 31, 2011 decreased $1.9 million, or 3.0%, as compared to the prior year. The Company attributes the decrease primarily to natural cycles in the spending patterns of its major clients. In particular, the Engineering segment's Canadian Engineering Group generated $21.3 million in fiscal 2011 as compared to $24.8 million in the prior year. The primary reason for the decline was that a project started in 2006 for a major customer entered the closeout phase in late 2011. Revenues from this project in fiscal 2011 were $12.8 million as compared to $17.2 million in the prior year. The project spending slowed considerably in the second half of fiscal 2011 and is expected to end in the first quarter of fiscal 2012. The project generated revenues of $3.1 million and $2.2 million in the third and fourth quarters of fiscal 2011, respectively. The Company expects to generate approximately $2.0 million of revenue in the first quarter of fiscal 2012 as the project is completed. While the Company does not anticipate that the quarterly revenues lost from the completion of this major project will be replaced in the near term, that Company did, in the fourth quarter of fiscal 2011, execute a master services agreement ("MSA") with this same major customer to provide engineering services for future capital and operating projects. The Company is not, however, able to predict how much work the Company will win under this new MSA, though the Company is cautiously optimistic about winning future projects.

During the fiscal year ended December 31, 2011, the revenue decline at the Company's Canadian Engineering Group was offset by growth in the Engineering's Power Systems USA and Facilities Design divisions. The Power Systems USA and Facilities Design divisions generated $15.2 million and $4.4 million, respectively in fiscal 2011 as compared to $11.2 million and $2.5 million, respectively, in the prior year. Engineering segment operating income was $4.5 million for the fiscal year ended December 31, 2011 as compared to $5.5 million for the comparable prior year. The decrease in operating income was primarily due to lower revenues, an increase in cost of services as a percentage of revenues and a higher allocation of corporate SGA expense. The increase in cost of services as a percentage of revenues was primarily due to less higher margin project work in the current period. Corporate SGA expense is allocated based on revenues and the Engineering revenues as a percentage of total revenues significantly increased in the current period.

Specialty Health Care

Specialty Health Care revenues of $27.4 million in the fiscal year ended December 31, 2011, increased $1.5 million, or 5.8%, as compared to the prior year. The Specialty Health Care segment experienced operating income of $1.8 million for the fiscal year ended December 31, 2011 as compared to $2.0 million for the prior year. The decrease in operating income was primarily attributable to an increase in cost of sales and an increase in the allocation of corporate SGA expense.

Liquidity and Capital Resources

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

	Fiscal Years Ended	
	December 31, 2011	January 1, 2011
Cash provided by (used in):		
Operating Activities	$6,470	$13,340
Investing Activities	($418)	$329
Financing Activities	($2,226)	$45

Operating Activities

Operating activities provided $6.5 million of cash for the fiscal year ended December 31, 2011 as compared to $13.3 million in the comparable prior year period. The major components of the cash provided by operating activities in the fiscal year ended December 31, 2011 and the comparable prior year period are as follows: net income and changes in accounts receivable, accounts payable and accrued expenses and accrued payroll and related costs.

Net income for the fiscal year ended December 31, 2011 was $4.3 million as compared to $5.8 million for the comparable prior year period. A decrease in accounts receivable in the fiscal year ended December 31, 2011 provided $2.0 million as compared to a decrease in accounts receivable during the fiscal year ended January 1, 2011 which provided $5.3 million. The Company primarily attributes the decrease in accounts receivables for the fiscal year ended December 31, 2011 to decreases in revenues as compared to the year ended January 1, 2011.

A decrease in accounts payable and accrued expenses in the fiscal year ended December 31, 2011 used $0.9 million as compared to $1.3 million in the comparable prior year period. The Company attributes these changes to general timing of payments to vendors in the normal course of business. A decrease to accrued payroll and related costs in the fiscal year ended December 31, 2011 used $1.1 million as compared to providing $0.3 million in the comparable prior year period. The decrease in accrued payroll and related costs during the fiscal year ended December 31, 2011 primarily relates to decreased revenues and payroll.

Liquidity and Capital Resources (Continued)

Investing Activities

Investing activities used cash of $0.4 million for the fiscal year ended December 31, 2011 as compared to providing cash of $0.3 million for the comparable prior year period. The increase in cash used by investing activities was attributable to $0.1 million in payments related to the acquisition of PSG, increases to deposits for leased office space and increased expenditures for property and equipment. In the comparable prior year period, the Company sold its light industrial staffing division which generated $0.4 million. The Company anticipates upgrading its ERP system sometime in 2012 and, depending on what system is selected, it may see a significant rise in expenditures for property and equipment.

Financing Activities

Financing activities consisted of using $2.2 million for the fiscal year ended December 31, 2011 as compared to negligible positive cash flow for the comparable prior year period. The primary use of cash was for the Company’s share repurchase program.

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, amended and restated effective February 20, 2009, which provides for a $15 million revolving credit facility and includes a sub-limit of $5.0 million for letters of credit (the “Revolving Credit Facility”). The Revolving Credit Facility has been amended several times, most recently on December 24, 2011 when the maturity date was extended to August 31, 2016. Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, or (ii) Citizens Bank’s prime rate. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense.

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

There were no borrowings during the fiscal years ended December 31, 2011 and January 1, 2011. At December 31, 2011 and January 1, 2011, there were letters of credit outstanding for $0.9 million. At December 31, 2011, the Company had availability for additional borrowings under the Revolving Credit Facility of $14.1 million.

As of December 31, 2011, $4.5 million of the $28.4 million (on the Consolidated Balance Sheet) of cash and cash equivalents was held by foreign subsidiaries.

Commitments

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.

Liquidity and Capital Resources (Continued)

Commitments - (Continued)

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

The Company does not currently have material commitments for capital expenditures. However, the Company anticipates that it will begin to upgrade its current ERP system sometime in 2012. Additionally, the Company believes that its Engineering segment will purchase several pieces of equipment totaling approximately $0.5 million for one of its operating divisions. The Company's current commitments consist primarily of lease obligations for office space. The Company believes that its capital resources are sufficient to meet its present obligations and those to be incurred in the normal course of business for at least the next 12 months.

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

Fiscal Years	Amount
2012	$2,905
2013	1,452
2014	586
2015	335
Thereafter	304
Total	$5,582

The Company's Parsippany, NJ lease of approximately 28,000 square feet expires in June 2012. As of February 22, the Company currently subleases approximately 12,000 square feet in this location. The Company is currently negotiating a lease of approximately 14,000 square feet with either its current landlord or a new landlord for periods of up to eight years.

The Company has one active acquisition agreement whereby future contingent consideration may be earned and paid (PSG, acquired in 2009). In connection with the PSG acquisition, the Company is obligated to pay future contingent consideration to the sellers upon the acquired business achieving certain earnings targets through the end of the Company's fiscal 2013. In general, the future contingent consideration amounts fall into two categories: (a) Deferred Consideration - fixed amounts due if the acquisition achieves a base level of earnings which has been determined at the time of acquisition and (b) Earnouts – amounts payable that are not fixed and are based on the growth in excess of the base level earnings.

The Company's outstanding Deferred Consideration obligations potentially due after December 31, 2011, which relate to the PSG acquisition, could result in the following maximum Deferred Consideration payments ($ in thousands):

Year Ending	Amount
December 29, 2012	$175
December 28, 2013	184
Maximum deferred consideration	$359

Liquidity and Capital Resources (Continued)

Commitments (Continued)

The Company does not believe that future Earnouts to be paid, if any, are likely to be material.

Significant employment agreements are as follows:

Employment Agreement
The Company has an employment agreement with its Chief Executive Officer and President, Leon Kopyt, which currently provides for an annual base salary of $0.7 million and other customary benefits. In addition, the agreement provides that Mr. Kopyt's annual bonus be based on EBITDA, defined as earnings before interest, taxes, depreciation and amortization. The agreement is for a rolling term of three years, which automatically extends each year for an additional one-year period on February 28 of each year. The agreement expires on February 28, 2015. The employment agreement is terminable by the Company upon Mr. Kopyt's death or disability, or for "good and sufficient cause," as defined in the agreement.

Termination Benefits Agreement
The Company is party to a Termination Benefits Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (the "Benefits Agreement"). Pursuant to the Benefits Agreement, following a Change in Control (as defined therein), the remaining term of Mr. Kopyt's employment is extended for five years (the "Extended Term"). If Mr. Kopyt's employment is terminated thereafter by the Company other than for cause, or by Mr. Kopyt for good reason (including, among other things, a material change in Mr. Kopyt's salary, title, reporting responsibilities or a change in office location which requires Mr. Kopyt to relocate), then the following provisions take effect: the Company is obligated to pay Mr. Kopyt a lump sum equal to his salary and bonus for the remainder of the Extended Term; and the Company shall be obligated to pay to Mr. Kopyt the amount of any excise tax associated with the benefits provided to Mr. Kopyt under the Benefits Agreement. If such a termination had taken place as of December 31, 2011, Mr. Kopyt would have been entitled to cash payments of approximately $5.9 million (representing salary and excise tax payments). A Change in Control as defined in the Benefits Agreement does not include a transaction whereby the Company sells, exchanges, transfers or otherwise disposes of substantially all of the assets in a transaction approved by at least two-thirds of the Board of Directors.

Severance Agreement
The Company is party to a Severance Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (the "Severance Agreement"). The agreement provides for certain payments to be made to Mr. Kopyt and for the continuation of Mr. Kopyt's employee benefits for a specified time after his service with the Company is terminated other than "for cause," as defined in the Severance Agreement. Amounts payable to Mr. Kopyt under the Severance Agreement would be offset and reduced by any amounts received by Mr. Kopyt after his termination of employment under his employment agreement and the Benefits Agreement, which are supplemented and not superseded by the Severance Agreement. If Mr. Kopyt had been terminated as of December 31, 2011, then under the terms of the Severance Agreement, and after offsetting any amounts that would have been received under his current employment and termination benefits agreements, he would have been entitled to cash payments of approximately $4.0 million, inclusive of employee benefits.

Off-Balance Sheet Arrangements

None.

Impact of Inflation

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

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

New Accounting Standards

In September 2011, the FASB amended guidance on the annual goodwill impairment test performed by the Company. Under the amended guidance, the Company will have the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than the carrying value, the quantitative impairment test is required. If the Company believes the fair value of a reporting unit is greater than the carrying value, no further testing is required. A company can choose to perform the qualitative assessment on some or none of its reporting entities. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this guidance during the fourth quarter of 2011.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of its Revolving Credit Facility. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of December 31, 2011, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Presently the impact of a 10% (approximately 90 basis points) increase in interest rates on its variable debt (using an incremental borrowing rate) would have a relatively nominal impact on the Company's results of operations. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

Management's Report on Internal Control over Financial Reporting

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

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011 based upon criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management determined that the company's internal control over financial reporting was effective as of December 31, 2011, based on the criteria in Internal Control-Integrated Framework issued by COSO.

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 shall be included in the 2012 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 shall be included in the 2012 Proxy Statement and is incorporated herein by reference.

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

Except as set forth below, the information required by Item 12 shall be included in the 2012 Proxy Statement and is incorporated herein by reference.

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

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for issuance under equity compensation plans, excluding securities reflected in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	916,594	$4.24	437,600
Equity compensation plans not approved by security holders	—	—	—
Total	916,594	$4.24	437,600

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

The information required by Item 13 shall be included in the 2012 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 shall be included in the 2012 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

3. See Item (b) below.

(b) Exhibits

(3)(a) Articles of Incorporation, as amended; incorporated by reference to Exhibit 3(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1994.

(3)(b) Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit A to the Registrant's Proxy Statement, dated February 6, 1996, filed with the Securities and Exchange Commission on January 29, 1996.

(3)(c) Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit B to the Registrant's Proxy Statement, dated February 6, 1996, filed with the Securities and Exchange Commission on January 29, 1996.

(3)(d) Amended and Restated Bylaws; incorporated by reference to Exhibit 3(d) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

(3)(e) Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, dated June 9, 2010 (filed as an exhibit to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 9, 2010, and incorporated herein by reference).

(4)(a) Registration Rights Agreement, dated March 11, 1996, by and between RCM Technologies, Inc. and the former shareholders of The Consortium; incorporated by reference to Exhibit (c)(2) to the Registrant's Current Report on Form 8-K dated March 19, 1996, filed with the Securities and Exchange Commission on March 20, 1996.

(4)(b) Rights Agreement, dated as of June 9, 2010, between the Registrant and American Stock Transfer & Trust Company, as Rights Agent (filed as an exhibit to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 9, 2010, and incorporated herein by reference).

* (10)(a) RCM Technologies, Inc. 1992 Incentive Stock Option Plan; incorporated by reference to Exhibit A to the Registrant's Proxy Statement, dated March 9, 1992, filed with the Securities and Exchange Commission on March 9, 1992.

(10)(b) RCM Technologies, Inc. 1994 Non-employee Director Stock Option Plan; incorporated by reference to the appendix to the Registrant's Proxy Statement, dated March 31, 1994, filed with the Securities and Exchange Commission on March 28, 1994.

* (10)(c) RCM Technologies, Inc. 1996 Executive Stock Option Plan, dated August 15, 1996; incorporated by reference to Exhibit 10(l) to the Registrant’s Annual Report on Form 10-K for the fiscal year ended October 31, 1996, filed with the Securities and Exchange Commission on January 21, 1997 (the “1996 10-K”).

* (10)(d) RCM Technologies, Inc. 2000 Employee Stock Incentive Plan, dated January 6, 2000; incorporated by reference to Exhibit A to the Registrant’s Proxy Statement, dated March 3, 2000, filed with the Securities and Exchange Commission on February 28, 2000.

(b) Exhibits (Continued)

* (10)(e) Second Amended and Restated Termination Benefits Agreement, dated March 18, 1997, between the Registrant and Leon Kopyt; incorporated by reference to Exhibit 10(g) to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-23753), filed with the Securities and Exchange Commission on March 21, 1997.

* (10)(f) Amended and Restated Employment Agreement, dated November 30, 1996, between the Registrant, Intertec Design, Inc. and Leon Kopyt; incorporated by reference to Exhibit 10(g) to the 1996 10-K.

(10)(g) Severance Agreement, dated June 10, 2002, between RCM Technologies, Inc. and Leon Kopyt; incorporated by reference to Exhibit 10a to the Second Quarter 2002 10-Q.

* (10)(h) Exhibit A to Severance Agreement General Release; incorporated by reference to Exhibit 10b to the Second Quarter 2002 10-Q.

* (10)(i) Amendment No. 1, dated December 12, 2007, to the Amended and Restated Employment Agreement, entered into on November 30, 1996, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 12, 2007, filed with the Securities and Exchange Commission on December 12, 2007 (the "December 2007 8-K").

* (10)(j) Amendment No. 1, dated December 12, 2007, to the Second Amended and Restated Termination Benefits Agreement, made March 18, 1997, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.2 to the December 2007 8-K.

* (10)(k) Amendment No. 1, dated December 12, 2007, to the Severance Agreement, entered into on June 12, 2002, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.3 to the December 2007 8-K.

* (10)(l) The RCM Technologies, Inc. 2007 Omnibus Equity Compensation Plan; incorporated by reference to Annex A to the Registrant's Proxy Statement, dated April 20, 2007, filed with the Securities and Exchange Commission on April 19, 2007.

* (10)(m) Separation and Release Agreement, dated August 27, 2008; incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated August 21, 2008, filed with the Securities and Exchange Commission on August 27, 2008.

(10)(n) Second Amended and Restated Loan and Security Agreement dated as of February 19, 2009, between RCM Technologies, Inc. and all of its Subsidiaries, Citizens Bank of Pennsylvania as Administrative Agent and Arranger and the Financial Institutions Named therein as Lenders; incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated February 19, 2009, filed with the Securities and Exchange Commission on February 25, 2009.

* (10)(o) Amendment, dated as of July 21, 2011, to Second Amended and Restated Loan and Security Agreement dated as of February 19, 2009, between RCM Technologies, Inc. and all of its Subsidiaries, Citizens Bank of Pennsylvania as Administrative Agent and Arranger and the Financial Institutions Named therein as Lenders. (Filed herewith)

* (10)(p) Second Amendment, dated as of October 24, 2011, to Second Amended and Restated Loan and Security Agreement dated as of February 19, 2009, between RCM Technologies, Inc. and all of its Subsidiaries, Citizens Bank of Pennsylvania as Administrative Agent and Arranger and the Financial Institutions Named therein as Lenders. (Filed herewith)

(b) Exhibits (Continued)

(10)(q) Third Amendment, dated as of December 13, 2011, to Second Amended and Restated Loan and Security Agreement dated as of February 19, 2009, between RCM Technologies, Inc. and all of its Subsidiaries, Citizens Bank of Pennsylvania as Administrative Agent and Arranger and the Financial Institutions Named therein as Lenders. (Filed herewith)

* (10)(r) Option Grant Agreement, dated April 21, 2010, to Richard D. Machon (filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 23, 2010, and incorporated herein by reference).

* (10)(s) Option Grant Agreement, dated April 21, 2010, to S. Gary Snodgrass (filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 23, 2010, and incorporated herein by reference).

(21) Subsidiaries of the Registrant. (Filed herewith)

(23.1) Consent of EisnerAmper LLP. (Filed herewith)

(31.1) Certifications of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. (Filed herewith)

(31.2) Certifications of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. (Filed herewith)

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

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

(b) Exhibits (Continued)

** 101.INS XBRL Instance Document (Furnished herewith)

** 101.SCH XBRL Taxonomy Extension Schema Document (Furnished herewith)

** 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (Furnished herewith)

** 101.LAB XBRL Taxonomy Extension Label Linkbase Document (Furnished herewith)

** 101.PRE XBRL Taxonomy Extension Presentation Linkbase Documents (Furnished herewith)

** 101.DEF XBRL Taxonomy Definition Linkbase Document (Furnished herewith)

* Constitutes a management contract or compensatory plan or arrangement.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RCM Technologies, Inc.

Date: February 22, 2012	By: /s/ Leon Kopyt **Leon Kopyt** Chairman, President, Chief Executive Officer and Director
Date: February 22, 2012	By: /s/ Kevin D. Miller **Kevin D. Miller** Chief Financial Officer, Treasurer and Secretary

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

Date: February 22, 2012	By: /s/ Leon Kopyt **Leon Kopyt** Chairman, President, Chief Executive Officer (Principal Executive Officer) and Director
Date: February 22, 2012	By: /s/ Kevin D. Miller **Kevin D. Miller** Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)
Date: February 22, 2012	By: /s/ Robert B. Kerr **Robert B. Kerr** Director
Date: February 22, 2012	By: /s/ Richard D. Machon **Richard D. Machon** Director
Date: February 22, 2012	By: /s/ Lawrence Needleman **Lawrence Needleman** Director
Date: February 22, 2012	By: /s/ S. Gary Snodgrass **S. Gary Snodgrass** Director

RCM TECHNOLOGIES, INC.

FORM 10-K

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and January 1, 2011

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

	December 31, 2011	January 1, 2011
Current assets:		
Cash and cash equivalents	$28,417	$24,704
Accounts receivable, net	39,031	41,213
Transit accounts receivable	3,029	-
Prepaid expenses and other current assets	2,087	1,841
Deferred income tax assets, domestic	665	827
Assets of discontinued operations	-	2
Total current assets	73,229	68,587
Property and equipment, net	2,535	3,295
Other assets:		
Deposits	199	183
Goodwill	7,319	7,319
Intangible assets, net	210	325
Deferred income tax assets, domestic	2,686	3,303
Total other assets	10,414	11,130
Total assets	$86,178	$83,012
Current liabilities:		
Accounts payable and accrued expenses	$5,107	$6,004
Transit accounts payable	3,030	-
Accrued payroll and related costs	5,831	6,950
Income taxes payable	226	39
Liabilities of discontinued operations	-	45
Deferred income tax liability, foreign	85	-
Contingent consideration	11	121
Total current liabilities	14,290	13,159
Contingent consideration	227	245
Stockholders' equity:		
Preferred stock, $1.00 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, $0.05 par value; 40,000,000 shares authorized; 13,335,008 shares issued and 12,743,222 shares outstanding at December 31, 2011 and 13,220,445 shares issued and 13,171,048 shares outstanding at January 1, 2011	666	661
Additional paid-in capital	108,203	107,817
Accumulated other comprehensive income	1,306	1,415
Accumulated deficit	(35,801)	(40,079)
Treasury stock common (591,786 shares at December 31, 2011 and 49,397 shares at January 1, 2011, at cost)	(2,713)	(206)
Stockholders' equity	71,661	69,608
Total liabilities and stockholders' equity	$86,178	$83,012

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Fiscal Years Ended December 31, 2011 and January 1, 2011
(Dollars in thousands, except per share amounts, unless otherwise indicated)

	December 31, 2011	January 1, 2011
Revenues	$143,811	$162,022
Cost of services	103,075	115,835
Gross profit	40,736	46,187
Operating costs and expenses		
Selling, general and administrative	32,578	35,825
Depreciation and amortization	1,149	1,341
Operating cost and expenses	33,727	37,166
Operating income	7,009	9,021
Other (expense) income		
Interest expense and other, net	(36)	(61)
(Loss) gain on foreign currency transactions	(42)	27
Other (expense) income	(78)	(34)
Income from continuing operations before income taxes	6,931	8,987
Income tax expense from continuing operations	2,653	2,570
Income from continuing operations	4,278	6,417
Loss from discontinued operations, net of tax benefit	-	(622)
Net income	$4,278	$5,795
Basic and diluted net earnings (loss) per share data:		
Income from continuing operations	$0.33	$0.49
Loss from discontinued operations, net of tax benefit	-	($0.05)
Net income	$0.33	$0.44

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Fiscal Years Ended December 31, 2011 and January 1, 2011
(Dollars in thousands, except share amounts, unless otherwise indicated)

	Common Stock		Additional	Accumulated Other		Treasury Stock		
	Issued Shares	Amount	Paid-in Capital	Comprehensive Income	Accumulated Deficit	Shares	Amount	Total
Balance, January 2, 2010	12,960,778	$648	$107,262	$1,267	($45,874)	-	$ -	$63,303
Issuance of stock under employee stock purchase plan	74,172	4	145	-	-	-	-	149
Translation adjustment	-	-	-	148	-	-	-	148
Issuance of stock upon exercise of stock options	185,495	9	93	-	-	-	-	102
Stock based compensation expense	-	-	317	-	-	-	-	317
Common stock repurchase	-	-	-	-	-	49,397	(206)	(206)
Net income	-	-	-	-	5,795	-	-	5,795
Balance, January 1, 2011	13,220,445	$661	$107,817	$1,415	($40,079)	49,397	($206)	$69,608
Issuance of stock under employee stock purchase plan	43,407	2	166	-	-	-	-	168
Translation adjustment	-	-	-	(109)	-	-	-	(109)
Issuance of stock upon exercise of stock options	71,156	3	110	-	-	-	-	113
Stock based compensation expense	-	-	110	-	-	-	-	110
Common stock repurchase	-	-	-	-	-	542,389	(2,507)	(2,507)
Net income	-	-	-	-	4,278	-	-	4,278
Balance, December 31, 2011	13,335,008	$666	$108,203	$1,306	($35,801)	591,786	($2,713)	$71,661

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Fiscal Years Ended December 31, 2011 and January 1, 2011

	December 31, 2011	January 1, 2011
Net income	$4,278	$5,795
Foreign currency translation adjustment	(109)	148
Comprehensive income	$4,169	$5,943

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal Years Ended December 31, 2011 and January 1, 2011
(Dollars in thousands unless otherwise indicated)

	December 31, 2011	January 1, 2011
Cash flows from operating activities:		
Net income	$4,278	$5,795
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,149	1,383
Loss on disposal of fixed assets	1	269
Gain on sale of discontinued operations	-	(143)
Stock-based compensation expense	110	317
Provision for losses on accounts receivable	165	93
Deferred income tax expense	864	403
Changes in assets and liabilities:		
Accounts receivable	2,005	5,250
Transit accounts receivable	(3,029)	-
Prepaid expenses and other current assets	(411)	782
Accounts payable and accrued expenses	(939)	(1,255)
Transit accounts payable	3,030	-
Accrued payroll and related costs	(1,097)	308
Income taxes payable	344	138
Total adjustments	2,192	7,545
Net cash provided by operating activities	6,470	13,340
Cash flows from investing activities:		
Property and equipment acquired	(274)	(101)
(Increase) decrease in deposits	(16)	30
Cash from sale of discontinued operations	-	400
Cash paid for acquisitions	(128)	-
Net cash (used in) provided by investing activities	(418)	329
Cash flows from financing activities:		
Sale of stock for employee stock purchase plan	168	149
Exercise of stock options	113	102
Common stock repurchases	(2,507)	(206)
Net cash (used in) provided by financing activities	(2,226)	45
Effect of exchange rate changes on cash and cash equivalents	(113)	48
Increase in cash and cash equivalents	3,713	13,762
Cash and cash equivalents at beginning of period	24,704	10,942
Cash and cash equivalents at end of period	$28,417	$24,704
Supplemental cash flow information:		
Cash paid for:		
Interest	$35	$74
Income taxes	$1,840	$1,669
Non-cash investing activities relating to acquisition purchase price adjustment:		
Decrease goodwill	$ -	$840
Decrease accounts payable and accrued expenses	$ -	$313
Decrease contingent consideration	$ -	$527

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

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

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

Cash and Cash Equivalents

The Company considers its holdings of highly liquid money-market instruments and certificates of deposits to be cash equivalents if the securities mature within 90 days from the date of acquisition. These investments are carried at cost, which approximates fair value. The Company’s cash balances are maintained in accounts held by major banks and financial institutions. The majority of these balances exceed federally insured amounts. At December 31, 2011 and January 1, 2011, $4.5 million and $0.8 million, respectively, of cash and cash equivalents were held in Canadian banks.

Fair Value of Financial Instruments

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Accrued and Unbilled Accounts Receivable and Work-in-Process

Unbilled receivables primarily represent revenues earned whereby those services are ready to be billed as of the balance sheet ending date. Work-in-process primarily represents revenues earned under contracts which the Company is contractually precluded from invoicing until future dates as project milestones are realized. See Note 4 for further details.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transit Receivables and Transit Payables

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) engages subcontractors to provide construction services; b) typically earns a fixed percentage of the total project value as a management fee and c) assumes no ownership or risks of inventory. In such situations, the Company acts as an agent under the provisions of "Overall Considerations of Reporting Revenue Gross as a Principal versus Net as an Agent" and therefore recognizes revenue on a "net basis." Under the terms of the agreements, the Company is 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 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. At any given point in time, the Company's transit accounts receivable usually equal the transit accounts payable. However, the transit accounts payable will occasionally exceed the transit accounts receivable due to timing differences.

Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation and amortization and are depreciated on the straight-line method at rates calculated to provide for retirement of assets at the end of their estimated useful lives. The Company's ERP software system, installed in 1999 and upgraded in 2004, is being depreciated over fifteen years. The Company's VOIP telephone system, the installation of which was substantially complete at the end of 2008, is being depreciated over seven years. All other hardware and software as well as furniture and office equipment is depreciated over five years. Leasehold improvements are depreciated over the shorter of the estimated life of the asset or the lease term. The Company anticipates that it will begin to upgrade its current ERP system in 2012.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company is required to assess the carrying value of its reporting units that contain goodwill at least on an annual basis in order to determine if any impairment in value has occurred. The Company has the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. An assessment of those qualitative factors or the application of the goodwill impairment test requires significant judgment including but not limited to the assessment of the business, its management and general market conditions, estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company formally assesses these qualitative factors and, if necessary, conducts its annual goodwill impairment test as of the last day of the Company's fiscal November each year, or more frequently if indicators of impairment exist. The Company periodically analyzes whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in share price and market capitalization, a decline in expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, a material change in management or its key personnel and/or slower expected growth rates, among others. Due to the thin trading of the Company stock in the public marketplace and the impact of the control premium held by a relatively few shareholders, the Company does not consider the market capitalization of the Company the most appropriate measure of fair value of goodwill for our reporting units. The Company looks to earnings/revenue multiples of similar companies recently completing acquisitions and the ability of our reporting units to generate cash flows as better measures of the fair value of our reporting units. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill. The Company determined there was no impairment during the fiscal years ended December 31, 2011 and January 1, 2011.

Long-Lived Assets

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

Software

In accordance with "Accounting for Costs of Computer Software Developed or Obtained for Internal Use," certain costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software. During the fiscal years ended December 31, 2011 and January 1, 2011, the Company capitalized approximately $82 and $16, respectively, for software costs. At December 31, 2011 the net balance after accumulated depreciation for all software costs capitalized was $293.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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

The Company also follows the provisions of "Accounting for Uncertainty in Income Taxes" which prescribes a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Company's policy is to record interest and penalty, if any, as interest expense.

Revenue Recognition

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

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

See description of revenue recognition policy for construction management and engineering services above in "transit receivables and transit payables." Such revenues recognized were approximately 4.2% of total revenues for the year ended December 31, 2011.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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

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

Permanent Placement Services
The Company earns permanent placement fees from providing permanent placement services. Fees for placements are recognized at the time the candidate commences employment. The Company guarantees its permanent placements on a prorated basis for 90 days. In the event a candidate is not retained for the 90-day period, the Company will provide a suitable replacement candidate. In the event a replacement candidate cannot be located, the Company will provide a prorated refund to the client. An allowance for refunds, based upon the Company's historical experience, is recorded in the financial statements. Revenues are recorded on a gross basis. Such revenues are not significant for the years ended December 31, 2011 and January 1, 2011.

Concentration

During the fiscal year ended December 31, 2011, United Technologies Corporation and Bruce Power accounted for 12.6% and 10.4% of the Company's revenues and as of December 31, 2011 represented 15.4% and 5.6% of the Company's accounts receivable, respectively. No other customer accounted for 10% or more of the Company's revenues. As of December 31, 2011, New York Power Authority (not including transit receivables) and New York City Department of Education represent 18.3% and 10.0% of the Company's accounts receivable, respectively. No other customer accounted for 10% or more of the Company's accounts receivable. The Company's five, ten and twenty largest customers accounted for approximately 38.2%, 47.7% and 57.7%, respectively, of the Company's revenues for fiscal year ended December 31, 2011.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation

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

Comprehensive Income

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

Per Share Data

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

Share - Based Compensation

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

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was $596 and $632 for the fiscal years ended December 31, 2011 and January 1, 2011, respectively.

2. FISCAL YEAR

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. Both fiscal years ended January 1, 2011 (fiscal 2010) and December 31, 2011 (fiscal 2011) were a 52-week reporting years.

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

3. USE OF ESTIMATES AND UNCERTAINTIES

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

The Company uses estimates to calculate an allowance for doubtful accounts on its accounts receivables, adequacy of reserves, 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.

4. ACCOUNTS RECEIVABLE

The Company's accounts receivable are comprised as follows:

	December 31, 2011	January 1, 2011
Billed	$28,460	$31,265
Accrued and unbilled	3,143	3,381
Work-in-progress	8,883	7,858
Allowance for doubtful accounts and sales discounts	(1,455)	(1,291)
Accounts receivable, net	$39,031	$41,213

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

5. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	December 31, 2011	January 1, 2011
Equipment and furniture	$2,767	$2,734
Computers and systems	5,641	5,869
Leasehold improvements	1,039	1,064
	9,447	9,667
Less: accumulated depreciation and amortization	6,912	6,372
Property and equipment, net	$2,535	$3,295

The Company writes off fully depreciated assets each year. In the fiscal years ended December 31, 2011 and January 1, 2011, write-offs were $496 and $975, respectively. For the fiscal years ended December 31, 2011 and January 1, 2011, depreciation expense was $1,034 and $1,202, respectively.

6. ACQUISITIONS

General

The Company has acquired numerous companies throughout its history and those acquisitions have generally included significant contingent consideration. In general, the future contingent consideration amounts have fallen into one of two categories: (a) Deferred Consideration - fixed amounts due if the acquisition achieves a base level of earnings which has been determined at the time of acquisition and (b) Earnouts – amounts payable that are not fixed and are based on the growth in excess of the base level earnings.

Future Contingent Payments

The Company has one active acquisition agreement relating to the acquisition of the assets of Project Solutions Group, Inc. (“PSG”) in 2009 whereby future contingent consideration may be earned and paid. The Company, at the time of the PSG acquisition, determined that the fair value of the total future contingent consideration (Deferred Consideration and Earnouts) associated with the PSG acquisition was approximately $0.4 million. The amount actually paid, if any, may substantially exceed the estimated fair value.

The Company’s outstanding Deferred Consideration obligations potentially due after December 31, 2011, which relate to the PSG acquisition and if certain objectives are achieved, could result in the following maximum Deferred Consideration payments:

Period Ending	Amount
December 29, 2012	$175
December 28, 2013	184
Maximum deferred consideration	$359

6. ACQUISITIONS (CONTINUED)

Future Contingent Payments (Continued)

The Company does not believe that future Earnouts paid, if any, are likely to be material. The Company's estimate of the fair value of the total future contingent consideration (Deferred Consideration plus Earnouts, if any) expected to be paid to PSG is $238 at December 31, 2011 and $366 at January 1, 2011, which is reflected as the contingent consideration on the accompanying balance sheet.

7. GOODWILL

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

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

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

The carrying amount of goodwill for December 31, 2011 and January 1, 2011 for the Company's Information Technology, Engineering and Specialty Health Care segments were $5,516, $100 and $1,703, respectively.

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

8. INTANGIBLE ASSETS

The changes in the carrying amount of intangible assets for the fiscal years ended December 31, 2011 and January 1, 2011 are as follows:

	Information Technology	Engineering	Specialty Health Care	Total
Balance as of January 2, 2010	$420	$44	$ -	$464
Amortization of intangibles during fiscal 2010	(105)	(34)		(139)
Balance as of January 1, 2011	315	10	-	325
Amortization of intangibles during fiscal 2011	(105)	(10)	-	(115)
Balance as of December 31, 2011	$210	$ -	$ -	$210

Schedule of Intangible Asset by Classes at December 31, 2011:

	Information Technology	Engineering	Specialty Health Care Services	Total
Restricted covenants	$14	$ -	$ -	$14
Customer relationships	196	-	-	196
Balance as of December 31, 2011	$210	$ -	$ -	$210

Expected Future Amortization Expense:

Fiscal Year	Information Technology	Engineering	Specialty Health Care Services	Total
2012	$105	$ -	$ -	$105
2013	105	-	-	105
	$210	$ -	$ -	$210

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

9. LINE OF CREDIT

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, amended and restated effective February 20, 2009, which provides for a $15 million revolving credit facility and includes a sub-limit of $5.0 million for letters of credit (the "Revolving Credit Facility"). The Revolving Credit Facility has been amended several times, most recently on December 24, 2011 when the maturity date was extended to August 31, 2016. Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, or (ii) the agent bank's prime rate. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense.

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

There were no borrowings during the fiscal year ended December 31, 2011 and fiscal year ended January 1, 2011. At December 31, 2011 and January 1, 2011, there were letters of credit outstanding for $0.9 million. At December 31, 2011, the Company had availability for additional borrowings under the Revolving Credit Facility of $14.1 million.

10. PER SHARE DATA

The number of common shares used to calculate basic and diluted earnings per share for fiscal years ended December 31, 2011 and January 1, 2011 was determined as follows:

	Fiscal Years Ended	
	December 31, 2011	January 1, 2011
Basic shares outstanding	12,976,308	13,053,593
Dilutive effect of stock options	168,092	148,842
Dilutive shares	13,144,400	13,202,435

For the fiscal year ended December 31, 2011, there were 76,900 options not included in the calculation of common stock equivalents because the exercise price of the options exceeded the average market price during the year.

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

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

10. PER SHARE DATA (CONTINUED)

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

	December 31, 2011	January 1, 2011
Exercise of options outstanding	916,594	1,101,594
Future grants of options or shares	437,600	415,600
Shares reserved for employee stock purchase plan	276,957	320,364
Total	1,631,151	1,837,558

11. SHARE BASED COMPENSATION

At December 31, 2011, the Company had five share-based employee compensation plans. The Company measures the fair value of stock options, if and when granted, based on the Black-Scholes method and using the closing market price of the Company's common stock on the date of grant. Stock options vest over periods ranging from one to three years and expire within 10 years of issuance. Share-based compensation expense related to awards is amortized over with applicable vesting periods using the straight-line method.

Share-based compensation expense of $110 and $317 was recognized for the fiscal years ended December 31, 2011 and January 1, 2011, respectively.

The risk-free rate of return is based on the yield of U.S. Treasury Strips with terms equal to the expected life of the options as of the grant date. The expected term of option is based on historical stock option exercise experience. The Company used its historical stock price volatility to compute the expected stock price volatility. The expected dividend yield is based on the Company's practice of not paying dividends. The annual forfeiture rate is based on the Company's historical experience. No stock options were granted in the fiscal year ended December 31, 2011. The Black-Scholes option weighted average assumptions used in the valuation of stock options for the fiscal years ended December 31, 2011 and January 1, 2011 were as follows:

	Fiscal Years Ended	
	December 31, 2011	January 1, 2011
Weighted average risk-free interest rate	N/A	2.52%
Expected term of option	N/A	5 years
Expected stock price volatility	N/A	65%
Expected dividend yield	N/A	$0.0
Annual forfeiture rate	N/A	6.12%
Weighted-average grant date fair value	N/A	$1.99

11. SHARE BASED COMPENSATION (CONTINUED)

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

The 1994 Plan, approved by the Company's stockholders in May 1994 and amended in April 1998, provided for the issuance of up to 110,000 shares of common stock to non-employee directors of the Company through February 19, 2004, at which time the 1994 Plan expired. Options granted under the 1994 Plan were granted at fair market value at the date of grant, and the exercise of options is contingent upon service as a director for a period of one year. Options granted under the 1994 Plan terminate when an optionee ceases to be a director of the Company. As of December 31, 2011, options to purchase 10,000 shares of common stock granted under the 1994 Plan were outstanding.

1996 Executive Stock Option Plan (the 1996 Plan)

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provided for the issuance of up to 1,250,000 shares of common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006, at which time the 1996 Plan expired. Options are generally granted at fair market value at the date of grant. The Compensation Committee of the Board of Directors determined the vesting period at the time of grant. As of December 31, 2011, options to purchase 550,500 shares of common stock granted under the 1996 Plan were outstanding.

2000 Employee Stock Incentive Plan (the 2000 Plan)

The 2000 Plan, approved by the Company's stockholders in April 2001, provides for the issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors could award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determined the vesting period at the time of grant. As of December 31, 2011, options to purchase 233,194 shares of common stock granted under the 2000 Plan were outstanding.

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

2007 Omnibus Equity Compensation Plan (the 2007 Plan)

The 2007 Plan, approved by the Company's stockholders in June 2007, provides for the issuance of up to 700,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. The maximum aggregate number of shares of our common stock with respect to which all grants may be made under the Plan to any individual during any fiscal year is 300,000 shares. The maximum aggregate number of shares of our common stock that may be subject to grants of stock units, performance shares, stock awards and other stock-based awards made under the Plan to any individual during any calendar year is 350,000 shares. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of December 31, 2011, 437,600 shares of common stock were available for future grants under the 2007 Plan, and options to purchase 122,900 shares of common stock granted under the 2007 Plan were outstanding.

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

11. SHARE BASED COMPENSATION (CONTINUED)

As of December 31, 2011, the Company had approximately $44 of total unrecognized compensation cost related to non-vested awards granted under the Company's various share-based plans, which the Company expects to recognize over approximately a three-year period. These amounts do not include the cost of any additional options that may be granted in future periods or reflect any potential changes in the Company's forfeiture rate.

Transactions related to all stock options under all plans are as follows:

	All Stock Options Outstanding	
	Shares	Weighted Average Exercise Price
Options outstanding as of January 2, 2010	1,564,594	$3.87
Options granted	20,000	$3.48
Options exercised, net	(185,495)	$2.64
Options forfeited in cashless exercises	(226,505)	$3.32
Options forfeited/cancelled	(71,000)	$5.07
Options outstanding as of January 1, 2011	1,101,594	$4.10
Options exercisable as of January 1, 2011	887,400	$4.57
Intrinsic value of outstanding stock options as of January 1, 2011	$845	
Weighted average grant date fair value of stock options issued during fiscal year ended January 1, 2011	$1.99	
Options outstanding as of January 1, 2011	1,101,594	$4.10
Options exercised, net	(71,156)	$3.44
Options forfeited in cashless exercises	(66,344)	$3.44
Options forfeited/cancelled	(47,500)	$3.22
Options outstanding as of December 31, 2011	916,594	$4.24
Options exercisable as of December 31, 2011	774,400	$4.63
Intrinsic value of outstanding stock options as of December 31, 2011	$1,034	
Weighted average grant date fair value of stock options issued during fiscal year ended December 31, 2011	N/A	

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

11. SHARE BASED COMPENSATION (CONTINUED)

A summary of the status of our nonvested stock options outstanding as of December 31, 2011, and changes during the year then ended is presented as follows:

Nonvested Stock Options	Shares	Weighed-Average Grant-Date Fair Value
Nonvested at January 1, 2011	214,194	$1.17
Vested	(45,000)	$1.43
Forfeited	(27,000)	$1.05
Nonvested at December 31, 2011	142,194	$1.12

The following table summarizes information about stock options outstanding at December 31, 2011:

Range of Exercise Prices	Number of Outstanding Options		Weighted-Average Remaining Contractual Life		Weighted-Average Exercise Price	
	Outstanding	Vested	Outstanding	Vested	Outstanding	Vested
$1.73 - $2.50	147,194	15,000	7.70	7.55	$2.03	$1.78
$3.48 - $4.91	692,500	682,500	3.13	3.06	$4.36	$4.37
$5.26 - $6.91	41,900	41,900	4.04	4.04	$5.68	$5.68
$9.16 - $9.81	35,000	35,000	5.54	5.54	$9.62	$9.62
	916,594	774,400				

Employee Stock Purchase Plan

The Company implemented the 2001 Employee Stock Purchase Plan (the "Purchase Plan") with shareholder approval, effective January 1, 2001. Under the Purchase Plan, employees meeting certain specific employment qualifications are eligible to participate and can purchase shares of common stock semi-annually through payroll deductions at the lower of 85% of the fair market value of the stock at the commencement or end of the offering period. The purchase plan permits eligible employees to purchase shares of common stock through payroll deductions for up to 10% of qualified compensation. During the fiscal years ended December 31, 2011 and January 1, 1011, there were 43,407 and 74,172 shares issued under the Purchase Plan for net proceeds of $168 and $149, respectively. As of December 31, 2011, there were 276,957 shares available for issuance under the Purchase Plan. Compensation expense, representing the discount to the quoted market price, for the Purchase Plan for the fiscal years ended December 31, 2011 and January 1, 2011 was $58 and $60, respectively.

12. TREASURY STOCK TRANSACTIONS

Our Board of Directors instituted a share repurchase program in February 2010, which authorized the repurchase of up to $7.5 million of the Company's outstanding shares of our common stock at prevailing market prices, from time to time over the subsequent 12 months. In February 2011, the share repurchase program was extended through February 2013. During the fiscal year ended December 31, 2011, the Company repurchased 542,389 shares at a total cost of approximately $2.5 million, or an average price of $4.62 per share. Since the inception of its share repurchase program and through December 31, 2011, the Company has purchased 591,786 shares at a total cost of approximately $2.7 million, or an average price of $4.59.

13. NEW ACCOUNTING STANDARDS

In September 2011, the FASB amended guidance on the annual goodwill impairment test performed by the Company. Under the amended guidance, the Company will have the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than the carrying value, the quantitative impairment test is required. If the Company believes the fair value of a reporting unit is greater than the carrying value, no further testing is required. A company can choose to perform the qualitative assessment on some or none of its reporting entities. The amended guidance was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted and the Company adopted this guidance for the fiscal year ended December 31, 2011. The adoption of the amended guidance had no impact on the Company's Consolidated Financial Statements.

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

14. SEGMENT INFORMATION – CONTINUING OPERATIONS

The Company follows "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for companies to report information about operating segments, geographic areas and major customers.

In March 2010, the Company closed its Oracle business unit located in southern California. The closed business unit sold Oracle software applications and provided implementation, hosting and maintenance services for the suite of Oracle and related software applications. In September 2010, the Company sold its light industrial and clerical staffing business located in southern California and doing business under the name Intertec. See Note 15 "Discontinued Operations." Such businesses have been classified as discontinued operations for all periods presented.

In prior financial statement filings, the Intertec business unit was grouped with its Specialty Health Care business unit in the Company's formerly named Commercial Services segment. All current and prior periods have been restated to include only the Specialty Health Care segment operating results.

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

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

14. SEGMENT INFORMATION – CONTINUING OPERATIONS (CONTINUED)

Fiscal Year Ended December 31, 2011	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	$53,830	$62,612	$27,369	$ -	$143,811
Cost of services	38,469	46,472	18,134	-	103,075
Selling, general and administrative	14,208	11,081	7,289	-	32,578
Depreciation and amortization	439	571	139	-	1,149
Operating income	$714	$4,488	$1,807	$ -	$7,009
Total assets	$14,742	$27,857	$9,055	$34,524	$86,178
Capital expenditures	$15	$183	$ -	$76	$274

Fiscal Year Ended January 1, 2011	Information Technology	Engineering	Specialty Health Care	Corporate	Total
Revenue	$71,597	$64,558	$25,867	$ -	$162,022
Cost of services	51,316	47,669	16,850	-	115,835
Selling, general and administrative	18,213	10,732	6,880	-	35,825
Depreciation and amortization	511	697	133	-	1,341
Operating income	$1,557	$5,460	$2,004	$ -	$9,021
Total assets	$16,226	$25,382	$9,218	$32,186	$83,012
Capital expenditures	$12	$48	$ -	$41	$101

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

14. SEGMENT INFORMATION – CONTINUING OPERATIONS (CONTINUED)

The Company derives a majority of its revenue from offices in the United States. Revenues reported for each operating segment are all from external customers. The Company is domiciled in the United States and its segments operate in the United States, Canada and Puerto Rico. The Company closed its Ireland sales office in December 2011. Revenues and total assets by geographic area for the fiscal years ended December 31, 2011 and January 1, 2011 are as follows:

	Fiscal Year Ended	
	December 31, 2011	January 1, 2011
Revenues		
United States	$118,729	$131,899
Canada	22,880	26,850
Puerto Rico	2,180	3,153
Ireland	22	120
	$143,811	$162,022
Total Assets		
United States	$73,314	$69,931
Canada	12,204	11,734
Puerto Rico	654	1,010
Ireland	6	337
	$86,178	$83,012

15. DISCONTINUED OPERATIONS

In September 2010, the Company sold the fixed and intangible assets associated with its light industrial and clerical staffing business located in southern California and doing business under the name Intertec. Accounts receivable and certain short term liabilities of this business unit were retained by the Company. The Company received cash of $400 and recognized a gain of $143 on the sale of Intertec during the 2010 fiscal year. The Intertec business unit had been grouped with its Specialty Health Care business unit in the Company's formerly named Commercial Services segment. The Company may experience continued operating losses from the clerical staffing business if future workers compensation losses exceed the Company's reserves but the Company does not presently anticipate any material losses, if any.

In March 2010, the Company closed its Oracle business unit located in southern California. The closed business unit, included in the Company's Information Technology segment, sold Oracle software applications and provided implementation, hosting and maintenance services for the suite of Oracle and related software applications. The Company may experience continued losses in its Oracle business unit as a result of representations and warranties made in association with certain completed projects in excess of accruals but the Company does not anticipate any material losses, if any.

The Intertec and Oracle business units have been classified as discontinued operations for all periods presented.

The net assets and liabilities of discontinued operations consist of:

	January 1, 2011
Assets: Accounts receivable, net	$2
Total assets	$2
Liabilities: Accounts payable and accrued expenses	$45
Total liabilities	$45

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

15. DISCONTINUED OPERATIONS (CONTINUED)

The loss from discontinued operations consists of:

	Fiscal Year Ended January 1, 2011
Revenues	$11,689
Cost of services	10,734
Gross profit	955
Operating costs and expenses	
Selling, general and administrative	1,825
Depreciation and amortization	41
Loss on disposal of fixed assets	269
	2,135
Operating loss from discontinued operations	(1,180)
Income tax benefit	480
Net operating loss from discontinued operations	(700)
Gain on sale of discontinued operations, net of tax expense of $65	78
Net loss from discontinued operations	($622)

16. INCOME TAXES

The components of income tax expense from continuing operations are as follows:

	Fiscal Years Ended	
	December 31, 2011	January 1, 2011
Current		
Federal	$1,058	$57
State and local	392	990
Foreign	340	1,120
	1,790	2,167
Deferred		
Federal	603	312
State	175	91
Foreign	85	-
	863	403
Total	$2,653	$2,570

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

16. INCOME TAXES (CONTINUED)

The income tax provisions for continuing operations reconciled to the tax computed at the statutory Federal rate was:

	December 31, 2011	January 1, 2011
Tax at statutory rate (credit)	34.0 %	34.0 %
State income taxes, net of Federal income tax benefit	5.4	8.0
Goodwill and intangible asset tax deduction	-	(14.9)
Permanent differences	(1.5)	2.0
Foreign income tax rate	0.2	(0.7)
Net operating loss carryforward	(6.8)	-
Liability for amended return	6.8	-
Other, net	0.2	0.2
Total income tax expense	38.3 %	28.6 %

A reconciliation of the unrecognized tax benefits for the years ended January 1, 2011 and December 31, 2011:

Unrecognized Tax Benefits	
Balance as of January 1, 2011	$0
Additions for current year tax positions	473
Balance as of December 31, 2011	$473

Unrecognized tax benefits amounted to $473 at December 31, 2011 which related to a refund received as the result of utilization of net operating loss carryforward. The total amount of unrecognized tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits will not change during the next 12 months. However, changes in the occurrence, expected outcomes and timing of those events could cause the Company's current estimate to change materially in the future.

The Company accounts for penalties or interest related to uncertain tax positions as part of its provision for income taxes. The amount of unrecognized tax benefits that would affect the effective tax rate if recognized is $473.

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

16. INCOME TAXES (CONTINUED)

At December 31, 2011 and January 1, 2011, deferred tax assets and liabilities consist of the following:

	December 31, 2011	January 1, 2011
Deferred tax assets:		
Allowance for doubtful accounts	$582	$516
Acquisition amortization, net	2,764	3,303
Reserves and accruals	477	622
Other	-	22
Total deferred tax assets	3,823	4,463
Deferred tax liabilities:		
Prepaid expense deferral	(394)	(333)
Bonus depreciation to be reversed	(78)	-
Canada deferred tax liability, net	(85)	-
Total deferred tax liabilities	(557)	(333)
Total deferred tax assets, net	$3,266	$4,130

The consolidated effective income tax rate for the current year was 38.3% as compared to 28.6% for the comparable prior year period. Income tax expense from continuing operations for the fiscal year ended December 31, 2011 was reduced by $0.2 million due to a $0.6 million write-off of an investment in the Company's Ireland subsidiary, a discreet benefit of $0.5 million resulting from a prior year amended return because of changed tax strategy with respect to a foreign tax credit, a $0.2 million reduction for an AMT credit carry forward from a prior year offset by a $0.5 million tax liability attributable to a refund received. The comparable prior year period was reduced $1.3 due to a permanent tax difference recognized due the goodwill and intangible asset write-off associated with a closed subsidiary (the goodwill and intangible asset balance was written off for book purposes in 2008). Before considering these adjustments, the consolidated effective income tax rate for income from continuing operations was 43.7% for the fiscal year ended December 31, 2011 as compared to 43.5% for the comparable prior year period.

The Company conducts its operations in multiple tax jurisdictions in the United States, Canada and Puerto Rico. The Company closed its Ireland office in December 2011. The Company and its subsidiaries file a consolidated U.S. Federal income tax return and file in various states. The Company's federal income tax returns have been examined through 2007. With limited exceptions, the Company is no longer subject to audits by state and local tax authorities for tax years prior to 2008.

17. CONTINGENCIES

From time to time, the Company is a defendant or plaintiff in various legal actions which 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. Included in the Company's accounts payable and accrued expenses is a provision for losses from legal matters aggregating approximately $0.3 million and $0.6 million as of December 31, 2011 and January 1, 2011, respectively. Asserted claims in these matters seek approximately $13.4 million in damages as of December 31, 2011.

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

18. STOCKHOLDER RIGHTS PLAN

On June 8, 2010, the Board of Directors of the Company approved a stockholder rights plan and declared a dividend distribution of one Right for each outstanding share of Common Stock of the Company. Each Right entitles the holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Unit") of the Series A Junior Participating Preferred Shares of the Company. The dividend was declared on June 8, 2010 (the "Rights Dividend Declaration Date") to stockholders of record as of the close of business on June 21, 2010 (the "Record Date"). Each Right will entitle the holder to purchase from the Company, upon the occurrence of certain events, one Unit at a purchase price of $13.50.

Generally, if any person or group acquires beneficial ownership of 15% or more of the Company's outstanding Common Stock ("Stock Acquisition"), each Right (other than Rights held by such acquiring person or group) will be exercisable at the $13.50 purchase price. Upon the acquisition of 50% of the Company, the Board may exchange all or part of the Rights for Common Shares having a value equal to the spread between the value of the Common Shares issuable upon exercise of a Right and the exercise price. At any time until ten days following the Stock Acquisition date, the Company may redeem the Rights at a price of $.001 per Right. The Rights expired on June 21, 2011; the Board could adopt a similar plan in the future should it deem it to be in the best interest of the Company.

19. RETIREMENT PLANS

Profit Sharing Plan

The Company maintains a 401(k) profit sharing plan for the benefit of eligible employees in the United States and other similar plans in Canada and Puerto Rico (the "Retirement Plans"). The 401(k) plan includes a cash or deferred arrangement pursuant to Section 401(k) of the Internal Revenue Code sponsored by the Company to provide eligible employees an opportunity to defer compensation and have such deferred amounts contributed to the 401(k) plan on a pre-tax basis, subject to certain limitations. The Company, at the discretion of the Board of Directors, may make contributions of cash to match deferrals of compensation by participants in the Retirement Plans. Contributions to the Retirement Plans charged to operations by the Company for fiscal years ended December 31, 2011 and January 1, 2011 were $59 and $395, respectively.

20. COMMITMENTS

Employment Agreement

The Company has an employment agreement with its Chief Executive Officer and President, Leon Kopyt, which currently provides for an annual base salary of $0.7 million and other customary benefits. In addition, the agreement provides that Mr. Kopyt's annual bonus be based on EBITDA, defined as earnings before interest, taxes, depreciation and amortization. The agreement is for a rolling term of three years, which automatically extends each year for an additional one-year period on February 28 of each year. The agreement expires on February 28, 2015. The employment agreement is terminable by the Company upon Mr. Kopyt's death or disability, or for "good and sufficient cause," as defined in the agreement.

Termination Benefits Agreement

The Company is party to a Termination Benefits Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (the "Benefits Agreement"). Pursuant to the Benefits Agreement, following a Change in Control (as defined therein), the remaining term of Mr. Kopyt's employment is extended for five years (the "Extended Term"). If Mr. Kopyt's employment is terminated thereafter by the Company other than for cause, or by Mr. Kopyt for good reason (including, among other things, a material change in Mr. Kopyt's salary, title, reporting responsibilities or a change in office location which requires Mr. Kopyt to relocate), then the following provisions take effect: the Company is obligated to pay Mr. Kopyt a lump sum equal to his salary and bonus for the remainder of the Extended Term; and the Company shall be obligated to pay to Mr. Kopyt the amount of any excise tax associated with the benefits provided to Mr. Kopyt under the Benefits Agreement. If such a termination had taken place as of December 31, 2011, Mr. Kopyt would have been entitled to cash payments of approximately $5.9 million (representing salary and excise tax payments). A Change in Control as defined in the Benefits Agreement does not include a transaction whereby the Company sells, exchanges, transfers or otherwise disposes of substantially all of the assets in a transaction approved by at least two-thirds of the Board of Directors.

Severance Agreement

The Company is party to a Severance Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (the "Severance Agreement"). The agreement provides for certain payments to be made to Mr. Kopyt and for the continuation of Mr. Kopyt's employee benefits for a specified time after his service with the Company is terminated other than "for cause," as defined in the Severance Agreement. Amounts payable to Mr. Kopyt under the Severance Agreement would be offset and reduced by any amounts received by Mr. Kopyt after his termination of employment under his employment agreement and the Benefits Agreement, which are supplemented and not superseded by the Severance Agreement. If Mr. Kopyt had been terminated as of December 31, 2011, then under the terms of the Severance Agreement, and after offsetting any amounts that would have been received under his current employment and termination benefits agreements, he would have been entitled to cash payments of approximately $4.0 million, inclusive of employee benefits.

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

20. COMMITMENTS (CONTINUED)

Operating Leases

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

Fiscal Years	Amount
2012	$2,905
2013	1,452
2014	586
2015	335
Thereafter	304
Total	$5,582

The Company's Parsippany, NJ lease of approximately 28,000 square feet expires in June 2012. As of February 22, the Company currently subleases approximately 12,000 square feet in this location. The Company is currently negotiating a lease of approximately 14,000 square feet with either its current landlord or a new landlord for periods of up to eight years.

Rent expense for the fiscal years ended December 31, 2011 and January 1, 2011 was $3,080 and $2,843, respectively.

The Company subleases space to other tenants at various office locations under cancelable lease agreements. During the fiscal years ended December 31, 2011 and January 1, 2011 payments of approximately $337 and $340, respectively, were received under these leasing arrangements. The Company offsets these payments against its rent expense for reporting purposes.

21. RELATED PARTY TRANSACTIONS

Richard Machon, RCM Director, from time to time provides consulting services to the Company or for clients of the Company through Mr. Machon's company, Machon & Associates. The Company paid Machon & Associates $30 and $22 during the fifty two weeks ended December 31, 2011 and January 1, 2011, respectively.

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

22. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Fiscal Year Ended December 31, 2011

	Sales	Gross Profit	Operating Income	Income from Continuing Operations	Diluted Income from Continuing Operations Per Share
1st Quarter	$38,706	$11,050	$2,057	$1,175	$0.09
2nd Quarter	36,514	10,460	2,023	1,242	$0.09
3rd Quarter	33,559	9,098	742	724	$0.06
4th Quarter	35,032	10,128	2,187	1,137	$0.09
Total	$143,811	$40,736	$7,009	$4,278	$0.33

Fiscal Year Ended January 1, 2011

	Sales	Gross Profit	Operating Income	Income from Continuing Operations	Diluted Income from Continuing Operations Per Share
1st Quarter	$45,329	$12,345	$2,088	$2,427	$0.19
2nd Quarter	42,811	12,457	2,770	1,650	$0.12
3rd Quarter	37,489	10,623	1,882	1,171	$0.09
4th Quarter	36,393	10,762	2,281	1,169	$0.09
Total	$162,022	$46,187	$9,021	$6,417	$0.49

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
RCM Technologies, Inc.

We have audited the accompanying consolidated balance sheets of RCM Technologies, Inc. (a Nevada corporation) and Subsidiaries (the Company) as of December 31, 2011 and January 1, 2011 and the related consolidated statements of income, changes in stockholders' equity, comprehensive income and cash flows for the fiscal years then ended. Our audits also included Schedule II for the fiscal years ended December 31, 2011 and January 1, 2011 listed in the index at Part IV, Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of RCM Technologies, Inc. and Subsidiaries as of December 31, 2011 and January 1, 2011, and the consolidated results of their operations and their consolidated cash flows for the fiscal years ended December 31, 2011 and January 1, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, schedule II for the fiscal years ended December 31, 2011 and January 1, 2011, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

EisnerAmper LLP
Edison, New Jersey
February 22, 2012

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
Fiscal Years Ended December 31, 2011 and January 1, 2011
(Dollars in thousands, except share and per share amounts, unless otherwise indicated)

Column A	**Column B**	**Column C**	**Column D**	**Column E**
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deduction	Balance at End of Period
Fiscal Year Ended December 31, 2011				
Allowance for doubtful accounts on trade receivables	$1,291	$311	$147	$1,455
Provision for contingencies for legal matters	$638	$271	$569	$340
Fiscal Year Ended January 1, 2011				
Allowance for doubtful accounts on trade receivables	$1,188	$319	$216	$1,291
Provision for contingencies for legal matters	$725	$101	$188	$638

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DIRECTORS

Leon Kopyt[5]
Chairman of the Board, President and Chief Executive Officer

Robert B. Kerr[1],[2],[3]
Director
Retired M&A Executive

Richard D. Machon[2]
Director
Industry Consultant

Lawrence Needleman[1],[2],[4]
Director
Public Accountant, EA

S. Gary Snodgrass[1],[2]
Director
Industry Consultant

OFFICERS

Leon Kopyt[5]
Chairman of the Board, President and Chief Executive Officer

Kevin D. Miller
Chief Financial Officer, Senior VP, Treasurer and Secretary

[1] Member of Audit Committee
[2] Member of Compensation Committee
[3] Chairman of Audit Committee
[4] Chairman of Compensation Committee
[5] Chairman of Executive Committee

SENIOR MANAGEMENT

Rocco Campanelli
Executive Vice President

Timothy Brandt
Group Senior Vice President

Chris Giunta
Senior Vice President

Michael Saks
Senior Vice President

Dan White
Senior Vice President

Robert Black
VP, Engineering (Canada)

Geoff Davies
VP, Power Systems Engineering Services (Canada)

Frank Kelly
VP, Finance & Operations

Udita Kukreti
VP, Technical Programs (Canada)

Patrick Sposato
VP, Facilities Design

Richard Timer, PE
VP, Engineering (U.S.)

Jim Donaldson
Controller

Cheryl Borelli
Director, Operations

Glenn Bubb
Director, Information Systems

Susan Casola
Director, Human Resources

SHAREHOLDER REFERENCE

Annual Meeting
The annual meeting of shareholders will be held at 6:00 p.m. on Thursday, June 14, 2012, at Morgan, Lewis & Bockius LLP, 1701 Market Street, Philadelphia, PA 19103.

Registrar and Transfer Agent
American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
www.amstock.com

Investor Information
Exchange: Nasdaq Global Market
Ticker Symbol: RCMT

Investor Relations
A copy of the Form 10-K for 2011 filed with the Securities and Exchange Commission accompanies this Annual Report. Copies of the announcements and quarterly earnings are available without charge to any shareholder, beneficial owner or interested investor upon request to:

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Independent Auditors
EisnerAmper LLP
Edison, NJ

RCM Technologies, Inc. is an Equal Opportunity Employer

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