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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **July 1, 2023**

OR

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

For the transition period from ________________ to ______________

Commission file number: **1-10245**

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

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.05 per share	RCMT	The NASDAQ Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

Common Stock, $0.05 par value, 7,975,699 shares outstanding as of August 9, 2023.

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report and documents incorporated by reference into it may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are not historical facts but rather are based on current expectations, estimates and projections about our business and industry, and our beliefs and assumptions. Words such as “believes,” “anticipates,” “plans,” “expects,” “will,” “goal,” and similar expressions are intended to identify forward-looking statement. The inclusion of forward-looking statements should not be regarded as a representation by us that any of our plans will be achieved. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Such forward-looking information is also subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, risks arising from our providing service to the healthcare industry; the impact of and future effects of the COVlD-19 pandemic or other potential pandemics; having a significant portion of our condensed consolidated revenues contributed by a concentrated group of customer during the twenty-six weeks ended July 1, 2023; credit and collection risks; our claim experience related to workers’ compensation and general liability insurance; the effects of changes in, or interpretations of laws and regulations governing, the healthcare industry, our workforce and the services that we provide, including state and local regulations pertaining to the taxability of our services and other labor-related matters such a minimum wage increases; the Company’s expectations with respect to selling, general, and administrative expense; and the risk factors described in Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and Part II, Item 1A “Risk Factors” of subsequent Quarterly Reports on Form 10-Q, including this Form 10-Q.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
July 1, 2023 and December 31, 2022
(In thousands, except share amounts)

	July 1, 2023	December 31, 2022
	(Unaudited)	
Current assets:		
Cash and cash equivalents	$1,273	$339
Accounts receivable, net	61,614	50,762
Transit accounts receivable	9,875	3,280
Prepaid expenses and other current assets	4,324	4,636
Total current assets	77,086	59,017
Property and equipment, net	2,158	2,098
Other assets:		
Deposits	169	173
Goodwill	22,147	22,147
Operating right of use asset	3,203	3,665
Intangible assets, net	774	864
Total other assets	26,293	26,849
Total assets	$105,537	$87,964
Current liabilities:		
Accounts payable and accrued expenses	$12,947	$14,147
Transit accounts payable	37,190	9,767
Accrued payroll and related costs	11,836	13,023
Finance lease payable	464	462
Income taxes payable	233	85
Operating right of use liability	1,091	1,349
Contingent consideration from acquisitions	300	472
Deferred revenue	504	1,119
Total current liabilities	64,565	40,424
Deferred income taxes, net, foreign	169	166
Deferred income taxes, net, domestic	1,599	1,495
Finance lease payable	-	232
Contingent consideration from acquisitions, net of current position	1,671	1,970
Operating right of use liability, net of current position	2,508	2,932
Borrowings under line of credit	14,851	8,783
Total liabilities	85,363	56,002
Contingencies (note 15)	-	-
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; 17,516,469 shares issued and 7,934,088 shares outstanding at July 1, 2023 and 17,287,967 shares issued and 9,285,318 shares outstanding at December 31, 2022	873	863
Additional paid-in capital	115,314	113,878
Accumulated other comprehensive loss	(2,857)	(2,863)
Accumulated deficit	(28,276)	(36,096)
Treasury stock, 9,582,381 shares at July 1, 2023 and 8,002,649 shares at December 31, 2022, at cost	(64,880)	(43,820)
Total stockholders' equity	20,174	31,962
Total liabilities and stockholders' equity	$105,537	$87,964

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Thirteen and Twenty-Six Weeks Ended July 1, 2023 and July 2, 2022
(Unaudited)
(In thousands, except per share amounts)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Revenue	$67,035	$74,346	$134,159	$156,307
Cost of services	48,275	52,663	96,375	111,204
Gross profit	18,760	21,683	37,784	45,103
Operating costs and expenses				
Selling, general and administrative	12,723	13,264	26,119	27,411
Depreciation and amortization of property and equipment	242	225	513	463
Amortization of acquired intangible assets	46	-	91	-
Gain on sale of assets	-	-	(395)	-
Operating costs and expenses, net of gain on sale of assets	13,011	13,489	26,328	27,874
Operating income	5,749	8,194	11,456	17,229
Other expense (income)				
Interest expense and other, net	425	69	785	166
(Gain) loss on foreign currency transactions	(7)	(97)	40	(142)
Other expense (income), net	418	(28)	825	24
Income before income taxes	5,331	8,222	10,631	17,205
Income tax expense	1,348	2,208	2,811	4,671
Net income	$3,983	$6,014	$7,820	$12,534
Basic net earnings per share	$0.48	$0.59	$0.90	$1.23
Diluted net earnings per share	$0.47	$0.57	$0.87	$1.18

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Twenty-Six Weeks Ended July 1, 2023 and July 2, 2022
(Unaudited)
(In thousands)

	Twenty-Six Weeks Ended	
	July 1, 2023	July 2, 2022
Net income	$7,820	$12,534
Other comprehensive income (loss)	6	(261)
Comprehensive income	$7,826	$12,273

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Twenty-Six Weeks Ended July 1, 2023 and July 2, 2022
(Unaudited)
(In thousands, except share amounts)

	Common Stock		Additional	Accumulated Other		Treasury Stock		
	Issued Shares	Amount	Paid-in Capital	Comprehensive Loss	Accumulated Deficit	Shares	Amount	Total
Balance, December 31, 2022	17,287,967	$863	$113,878	($2,863)	($36,096)	8,002,649	($43,820)	$31,962
Issuance of stock under employee stock purchase plan	33,071	2	345	-	-	-	-	347
Equity compensation expense from awards issued	-	-	496	-	-	-	-	496
Issuance of stock upon vesting of restricted share awards	179,762	8	(8)	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	640,578	(8,184)	(8,184)
Foreign currency translation adjustment	-	-	-	54	-	-	-	54
Net income	-	-	-	-	3,837		-	3,837
Balance, April 1, 2023	17,500,800	$873	$114,711	($2,809)	($32,259)	8,643,227	($52,004)	$28,512
Issuance of stock upon vesting of restricted share awards	7,669	-	-	-	-	-	-	-
Equity compensation expense from awards issued	-	-	471	-	-	-	-	471
Common stock issued as contingent consideration	8,000	-	132	-	-	-	-	132
Purchase of treasury stock	-	-	-	-	-	939,154	(12,876)	(12,876)
Foreign currency translation adjustment	-	-	-	(48)	-	-	-	(48)
Net income	-	-	-	-	3,983	-	-	3,983
Balance, July 1, 2023	17,516,469	$873	$115,314	($2,857)	($28,276)	9,582,381	($64,880)	$20,174

	Common Stock		Additional	Accumulated Other		Treasury Stock		
	Issued Shares	Amount	Paid-in Capital	Comprehensive Loss	Accumulated Deficit	Shares	Amount	Total
Balance, January 1, 2022	16,903,157	$845	$111,068	($2,699)	($56,985)	6,612,222	($26,260)	$25,969
Issuance of stock under employee stock purchase plan	37,133	2	124	-	-	-	-	126
Equity compensation expense from awards issued	-	-	403	-	-	-	-	403
Issuance of stock upon vesting of restricted share awards	175,000	9	(9)	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	406,480	(2,781)	(2,781)
Foreign currency translation adjustment	-	-	-	(35)	-	-	-	(35)
Net income	-	-	-	-	6,520	-	-	6,520
Balance, April 2, 2022	17,115,290	$856	$111,586	($2,734)	($50,465)	7,018,702	($29,041)	$30,202
Issuance of stock upon vesting of restricted share awards	38,175	1	(1)	-	-	-	-	-
Equity compensation expense from awards issued	-	-	302	-	-	-	-	302
Foreign currency translation adjustment	-	-	-	(226)	-	-	-	(226)
Net income	-	-	-	-	6,014	-	-	6,014
Balance, July 2, 2022	17,153,465	857	$111,887	($2,960)	($44,451)	7,018,702	($29,041)	$36,292

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Twenty-Six Weeks Ended July 1, 2023 and July 2, 2022
(Unaudited)
(In thousands)

	Twenty-Six Weeks Ended July 1, 2023	Twenty-Six Weeks Ended July 2, 2022
Cash flows from operating activities:		
Net income	$7,820	$12,534
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	604	463
Gain on sale of assets	(395)	-
Equity compensation expense from awards issued	967	705
Provision for losses on accounts receivable	-	(600)
Deferred income tax expense	108	38
Change in operating right of use assets	462	580
Changes in operating assets and liabilities:		
Accounts receivable	(10,839)	3,565
Prepaid expenses and other current assets	312	434
Net of transit accounts receivable and payable	20,828	(210)
Accounts payable and accrued expenses	(1,013)	(585)
Accrued payroll and related costs	(1,194)	3,048
Right of use liabilities	(683)	(926)
Income taxes payable	147	2,935
Deferred revenue	(615)	(1,237)
Deposits	2	11
Total adjustments and changes in operating assets and liabilities	8,691	8,221
Net cash provided by operating activities	16,511	20,755
Cash flows from investing activities:		
Property and equipment acquired	(559)	(409)
Right of use asset additions	-	(44)
Net cash used in investing activities	(559)	(453)
Cash flows from financing activities:		
Borrowings under line of credit	69,797	69,990
Repayments under line of credit	(63,728)	(84,141)
Issuance of stock for employee stock purchase plan	347	126
Changes in finance lease obligations	(232)	(270)
Contingent consideration paid	(339)	(99)
Common stock repurchase	(21,060)	(2,781)
Net cash used in financing activities	(15,215)	(17,175)
Effect of exchange rate changes on cash and cash equivalents	197	(250)
Increase in cash and cash equivalents	934	2,877
Cash and cash equivalents at beginning of period	339	235
Cash and cash equivalents at end of period	$1,273	$3,112
Supplemental cash flow information:		
Cash paid for:		
Interest	$601	$179
Income taxes	$1,821	$1,705
Non-cash investing activities:		
Right of use assets obtained in exchange for lease obligations	$ -	$732
Value of shares issued as contingent consideration	$132	$ -

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

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

1. Basis of Presentation

The accompanying condensed consolidated interim financial statements of RCM Technologies, Inc. and subsidiaries ("RCM" or the "Company") are unaudited. The year-end consolidated balance sheet was derived from the Company's audited statements but does not include all disclosures required by accounting principles generally accepted in the United States. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the Company's consolidated financial statements and the notes thereto for the year ended December 31, 2022 included in the Company's Annual Report Form 10-K for such period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

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

Results for the thirteen and twenty-six weeks ended July 1, 2023 and July 2, 2022 are not necessarily indicative of results that may be expected for the full year or any future period.

Fiscal Year

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. Both the current fiscal year ending December 30, 2023 (fiscal 2023) and the prior fiscal year ended December 31, 2022 (fiscal 2022) are 52-week reporting years. The fiscal quarters for fiscal 2023 and fiscal 2022 align as follows:

Fiscal 2023 Quarters	Weeks	Fiscal 2022 Quarters	Weeks
April 1, 2023	Thirteen	April 2, 2022	Thirteen
July 1, 2023	Thirteen	July 2, 2022	Thirteen
September 30, 2023	Thirteen	October 1, 2022	Thirteen
December 30, 2023	Thirteen	December 31, 2022	Thirteen

2. Use of Estimates and Uncertainties

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

The Company uses estimates to determine an allowance for doubtful accounts on its accounts receivable, litigation, medical claims, vacation, goodwill impairment, if any, equity compensation, the tax rate applied and the valuation of certain assets and liability accounts. In addition, the Company reviews its estimated costs to complete a contract and adjusts those costs when necessary. These estimates can be significant to the operating results and financial position of the Company. The estimates are based upon various factors including current and historical trends, as well as other pertinent industry and regulatory authority information. Management regularly evaluates this information to determine if it is necessary to update the basis for its estimates and to adjust for known changes.

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.

Fair Value of Financial Instruments

The Company's carrying value of financial instruments, consisting primarily of accounts receivable, transit accounts receivable, accounts payable and accrued expenses, transit accounts payable and borrowings under line of credit approximates fair value due to their liquidity or their short-term nature and the line of credit's variable interest rate. 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.

The Company re-measures the fair value of the contingent consideration at each reporting period and any change in the fair value from either the passage of time or events occurring after the acquisition date, is recorded in earnings in the accompanying consolidated statement of operations.

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

3. Revenue Recognition

The Company records revenue under Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*. Revenue is recognized when we satisfy a performance obligation by transferring services promised in a contract to a customer, in an amount that reflects the consideration that we expect to receive in exchange for those services. Performance obligations in our contracts represent distinct or separate service streams that we provide to our customers.

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

The Company derives its revenue from several sources. The Company's Engineering Services, Life Sciences and Information Technology segments perform consulting and project solution services. The Healthcare segment specializes in long-term and short-term staffing and placement services to hospitals, schools and long-term care facilities amongst others. All of the Company's segments perform staff augmentation services and derive revenue from permanent placement fees. The majority of the Company's revenue is invoiced on a time and materials basis.

The following table presents our revenue disaggregated by revenue source for the thirteen and twenty-six weeks ended July 1, 2023 and July 2, 2022:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Specialty Health Care:				
Time and Material	$35,276	$43,045	$74,110	$95,068
Permanent Placement Services	252	412	548	573
Total Specialty Health Care	$35,528	$43,457	$74,658	$95,641
Engineering:				
Time and Material	$11,557	$11,471	$22,027	$22,146
Fixed Fee	9,457	9,435	17,477	18,658
Total Engineering	$21,014	$20,906	$39,504	$40,804
Life Sciences and Information Technology:				
Time and Material	$8,624	$9,101	$16,858	$18,257
Permanent Placement Services	133	695	247	1,241
Fixed Fee	1,736	187	2,892	364
Total Life Sciences and Information Technology	$10,493	$9,983	$19,997	$19,862
	$67,035	$74,346	$134,159	$156,307

3. Revenue Recognition (Continued)

Time and Material

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

Fixed Fee

From time to time and predominantly in our Engineering segment, the Company will enter into contracts requiring the completion of specific deliverables. The Company has master services agreements with many of its customers that broadly define terms and conditions. Actual services performed under fixed fee arrangements are typically delivered under purchase orders that more specifically define terms and conditions related to that fixed fee project. While these master services agreements can often span several years, the Company's fixed fee purchase orders are typically performed over six to nine month periods. In instances where project services are provided on a fixed-price basis, revenue is recorded in accordance with the terms of each contract. In certain instances, revenue is invoiced at the time certain milestones are reached, as defined in the contract. Revenue under these arrangements are recognized as the costs on these contracts are incurred. From time-to-time, amounts paid in excess of revenue earned and recognized are recorded as deferred revenue, included in accounts payable and accrued expenses on the accompanying condensed consolidated balance sheets. Additionally, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when earned. Some contracts also limit revenue and billings to specified maximum amounts. Provisions for contract losses, if any, are made in the period such losses are determined. For contracts where there is a specific deliverable and the work is not complete and the revenue is not recognized, the costs incurred are deferred as a prepaid asset. The associated costs are expensed when the related revenue is recognized.

Permanent Placement Services

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

Deferred Revenue

There was $0.5 million of deferred revenue as of July 1, 2023. Deferred revenue was $1.1 million as of December 31, 2022. Revenue is recognized when the service has been performed. Deferred revenue may be recognized over a period exceeding one year from the time it was recorded on the balance sheet, although this is an infrequent occurrence. For the thirteen weeks ended July 1, 2023 and July 2, 2022, the Company recognized revenue of $0.3 million and $1.9 million, respectively, that was included in deferred revenue at the beginning of the reporting period. For the twenty-six weeks ended July 1, 2023 and July 2, 2022, the Company recognized revenue of $1.0 million and $2.9 million, respectively, that was included in deferred revenue at the beginning of the reporting period.

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

3. Revenue Recognition (Continued)

Concentration

During the twenty-six weeks ended July 1, 2023, the Company had one customer exceed 10% of consolidated revenue, representing 18.7% of consolidated revenue. During the twenty-six weeks ended July 2, 2022, the Company had two customers exceed 10% of consolidated revenue, representing 20.4% and 13.9% of consolidated revenue. In both periods presented, the customers are included in the Company's Specialty Health Care segment.

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

The Company's accounts receivable are comprised of the following:

	July 1, 2023	December 31, 2022
Billed	$49,694	$40,256
Unbilled	8,372	6,615
Work-in-progress	4,648	4,991
Allowance for sales discounts and doubtful accounts	(1,100)	(1,100)
Accounts receivable, net	$61,614	$50,762

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

From time to time, the Company's Engineering segment enters into agreements to provide, among other things, construction management and engineering services. Pursuant to these agreements, the Company a) may engage subcontractors to provide construction or other services; b) typically earns a fixed percentage of the total project value; and c) assumes no ownership or risks of inventory. In such situations, the Company acts as an agent under the provisions of FASB ASC 606 "Revenue from Contracts with Customers" and therefore recognizes revenue on a "net-basis." The Company records revenue on a "net" basis on relevant engineering and construction management projects, which require subcontractor/procurement costs or transit costs. In those situations, the Company charges the client a negotiated fee, which is reported as net revenue when earned.

Under the terms of the agreements, the Company is typically not required to pay the subcontractor until after the corresponding payment from the Company's end-client is received. Upon invoicing the end-client on behalf of the subcontractor or staffing agency, the Company records this amount simultaneously as both a "transit account receivable" and "transit account payable," as the amount when paid to the Company is due to and generally paid to the subcontractor within a few days. The Company typically does not pay a given transit account payable until the related transit account receivable is collected. The Company is typically obligated to pay the subcontractor or staffing agency whether or not the client pays the Company. The Company's transit accounts payable generally exceeds the Company's transit accounts receivable but absolute amounts and spreads fluctuate significantly from quarter to quarter in the normal course of business. The transit accounts receivable was $9.9 million and related transit accounts payable was $37.1 million, for a net payable of $27.2 million, as of July 1, 2023. The net of transit accounts payable and transit accounts receivable was a net payable of $6.5 million as of December 31, 2022 as compared to a net payable of $1.1 million as of January 1, 2022.

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

5. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization, and are depreciated or amortized on the straight-line method at rates calculated to provide for retirement of assets at the end of their estimated useful lives. Computer hardware and software, and furniture and office equipment are typically depreciated over five years. Leasehold improvements are amortized over the shorter of the estimated life of the asset or the lease term.

Property and equipment are comprised of the following:

	July 1, 2023	December 31, 2022
Computers and systems	$3,635	$4,077
Equipment and furniture	259	220
Leasehold improvements	388	267
Laboratory equipment	140	67
	4,421	4,630
Less: accumulated depreciation and amortization	2,263	2,532
Property and equipment, net	$2,158	$2,098

The Company periodically writes off fully depreciated and amortized assets. The Company wrote off fully depreciated and amortized assets of $601 and $603 during the twenty-six weeks ended July 1, 2023 and July 2, 2022, respectively. Depreciation and amortization expense of property and equipment for the thirteen weeks ended July 1, 2023 and July 2, 2022 was $242 and $225, respectively. Depreciation and amortization expense of property and equipment for the twenty-six weeks ended July 1, 2023 and July 2, 2022 was $513 and $463, respectively.

6. Acquisitions and Divestitures

Future Contingent Payments

As of July 1, 2023, the Company had two active acquisition agreements whereby additional contingent consideration may be earned by the sellers: 1) effective September 30, 2018, the Company acquired certain assets of Thermal Kinetics Engineering, PLLC and Thermal Kinetics Systems, LLC (together, “TKE”), and 2) effective October 2, 2022, the Company acquired certain assets of TalentHerder LLC. The Company estimates future contingent payments at July 1, 2023 as follows:

	Total
The four quarters following July 1, 2023	$300
Thereafter	1,671
Estimated future contingent consideration payments	$1,971

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

6. Acquisitions and Divestitures (Continued)

Future Contingent Payments (Continued)

For acquisitions that involve contingent consideration, the Company records a liability equal to the fair value of the estimated contingent consideration obligation as of the acquisition date. The Company determines the acquisition date fair value of the contingent consideration based on the likelihood of paying the additional consideration. The fair value is estimated using projected future operating results and the corresponding future earn-out payments that can be earned upon the achievement of specified operating objectives and financial results by acquired companies using Level 3 inputs and the amounts are then discounted to present value. These liabilities are measured quarterly at fair value, and any change in the fair value of the contingent consideration liability is recognized in the consolidated statements of operations. During the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding adjustment to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recognized in the consolidated statements of operations.

Estimates of future contingent payments are subject to significant judgment and actual payments may materially differ from estimates. The Company estimates future contingent consideration payments based on forecasted performance and recorded the fair value of those expected payments as of July 1, 2023. Contingent consideration related to acquisitions is recorded at fair value (level 3) with changes in fair value recorded in other (expense) income, net.

Potential future contingent payments to be made to all active acquisitions after July 1, 2023 are capped at a cumulative maximum of $11.6 million. The Company paid $0.5 million and $0.1 million of contingent consideration during the twenty-six weeks ended July 1, 2023 and July 2, 2022, respectively. The contingent consideration paid in the twenty-six weeks ended July 1, 2023 included $0.1 million of the Company's common stock.

7. Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired in business combinations. The Company tests goodwill for impairment on an annual basis as of the last day of the Company's fiscal year or more frequently if events occur or circumstances change indicating that the fair value of goodwill may be below the carrying amount. The Company reviewed industry and market conditions, reporting unit specific events as well as overall financial performance and determined that no indicators of impairment of goodwill existed during the twenty-six weeks ended July 1, 2023. As such, no impairment loss on the Company’s intangible assets during the twenty-six weeks ended July 1, 2023 was recorded as a result of such review.

The carrying amount of goodwill as of July 1, 2023 and December 31, 2022 was as follows:

Engineering	Specialty Health Care	Information Technology	Total
$11,918	$2,398	$7,831	$22,147

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

8. Line of Credit

On April 24, 2023, the Company entered into a Fourth Amended and Restated Loan Agreement (the "Fourth Amended and Restated Loan Agreement") with Citizens Bank, N.A., as lender (in such capacity, the "Lender") and as administrative agent and arranger (in such capacity, the "Administrative Agent"), to amend and restate in its entirety that certain Third Amended and Restated Agreement dated as of the August 9, 2018 (as the same has been amended and modified prior to the date hereof, the "Existing Loan Agreement").

The Fourth Amended and Restated Loan Agreement provides for a $45.0 million revolving credit facility (the "Revolving Credit Facility"), has no sub-limit for letters of credit, and expires on April 24, 2026.

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) SOFR (Secured Overnight Financing Rate) (which replaced LIBOR (London Interbank Offered Rate) upon the phasing out of LIBOR), plus applicable margin, typically borrowed in fixed 30-day increments, plus applicable margin, typically borrowed in fixed 30-day increments or (ii) the agent bank's prime rate generally borrowed over shorter durations. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense. The effective weighted average interest rate, including unused line fees, for the twenty-six weeks ended July 1, 2023 and July 2, 2022 were 6.3% and 1.9%, respectively.

All borrowings under the Fourth Amended and Restated Loan Agreement remain collateralized with substantially all of the Company's assets, as well as the capital stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as a covenant that restricts the Company's ability to borrow in order to pay dividends. As of July 1, 2023, the Company was in compliance with all covenants contained in the Revolving Credit Facility. The Company believes that it will maintain compliance with its financial covenants for the foreseeable future.

Borrowings under the line of credit as of July 1, 2023 and December 31, 2022 were $14.9 million and $8.8 million, respectively. There were letters of credit outstanding at July 1, 2023 and December 31, 2022 for $2.0 million and $1.9 million, respectively. At July 1, 2023 and December 31, 2022, the Company had availability for additional borrowings under the Revolving Credit Facility of $28.1 million and $34.3 million, respectively.

9. Per Share Data

The Company uses the treasury stock method to calculate the weighted-average shares outstanding used for diluted earnings per share. The number of weighted-average shares used to calculate basic and diluted earnings per share for the thirteen and twenty-six weeks ended July 1, 2023 and July 2, 2022 was determined as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Basic weighted average shares outstanding	8,297,521	10,133,279	8,734,848	10,181,895
Dilutive effect of outstanding restricted share awards	260,875	417,617	241,866	401,624
Diluted weighted average shares outstanding	8,558,396	10,550,896	8,976,714	10,583,519

For all periods presented, there were no anti-dilutive shares included in the calculation of common stock equivalents as there were no stock options outstanding.

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

9. Per Share Data (Continued)

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

	July 1, 2023	December 31, 2022
Time-based restricted stock awards outstanding	497,561	274,939
Performance-based restricted stock awards outstanding	100,000	-
Performance-based restricted stock awards outstanding under plans to be approved by the shareholders	-	225,000
Future grants of options or shares	605,629	890,682
Shares reserved for employee stock purchase plan	331,160	364,231
Total	1,534,350	1,754,852

10. Share-Based Compensation

At July 1, 2023, the Company had two share-based employee compensation plans, the Employee Stock Purchase Plan and the 2014 Omnibus Equity Compensation Plan.

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

Share-based compensation expense for the thirteen weeks ended July 1, 2023 and July 2, 2022 was $471 and $302, respectively. Share-based compensation expense for the twenty-six weeks ended July 1, 2023 and July 2, 2022 was $967 and $705, respectively. Stock-based compensation expense is included in selling, general and administrative expense in the Company's statement of operations.

As of July 1, 2023, the Company had $3.8 million of total unrecognized compensation cost, with approximately $3.5 million related to time-based non-vested share-based awards outstanding and $0.3 million related to performance-based non-vested share-based awards outstanding. The Company expects to recognize the expense associated with time-based non-vested share-based awards through fiscal 2027. If earned, the Company will recognize the expense associated with performance-based non-vested share-based awards straight-line through fiscal 2023. These amounts do not include a) the cost of any additional share-based awards granted in future periods or b) the impact of any potential changes in the Company's forfeiture rate.

10. Share-Based Compensation (Continued)

Incentive Share-Based Plans

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, subject to maximum purchases in any one fiscal year of 3,000 shares.

In fiscal 2015, the Company amended the Purchase Plan with shareholder approval to increase the aggregate number of shares of stock reserved for issuance or transfer under the Purchase Plan by an additional 300,000 shares so that the total number of shares of stock reserved for issuance or transfer under the Plan shall be 1,100,000 shares and to extend the expiration date of the Purchase Plan to December 31, 2025. In fiscal 2018, the Company amended the Purchase Plan with shareholder approval to increase the aggregate number of shares of stock reserved for issuance or transfer under the Purchase Plan by an additional 300,000 shares so that the total number of shares of stock reserved for issuance or transfer under the Plan shall be 1,400,000 shares. In fiscal 2021, the Company amended the Purchase Plan with shareholder approval to increase the aggregate number of shares of stock reserved for issuance or transfer under the Purchase Plan by an additional 400,000 shares so that the total number of shares of stock reserved for issuance or transfer under the Plan shall be 1,800,000 shares and the termination date of the Purchase Plan was extended to December 31, 2030.

The Company has two offering periods in the Purchase Plan coinciding with the Company's first two fiscal quarters and the last two fiscal quarters. Actual shares are issued on the first business day of the subsequent offering period for the prior offering period payroll deductions. The number of shares issued on January 3, 2023 (the first business day following the previous offering period) was 33,071. As of July 1, 2023, there were 331,160 shares available for issuance under the Purchase Plan. Compensation expense, representing the discount to the quoted market price, for the Purchase Plan for the twenty-six weeks ended July 1, 2023 and July 2, 2022 was $160 and $119, respectively.

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

10. Share-Based Compensation (Continued)

2014 Omnibus Equity Compensation Plan (the 2014 Plan)

The 2014 Plan, approved by the Company's shareholders in December 2014, initially provided for the issuance of up to 625,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries, or consultants and advisors utilized by the Company. In fiscal 2016, fiscal 2020 and fiscal 2022, the Company amended, or amended and restated, the 2014 Plan with shareholder approval to increase the aggregate number of shares of stock reserved for issuance under the Plan by an additional 500,000, 850,000 and 1,000,000 shares, respectively, so that the total number of shares of stock reserved for issuance under the Plan is 2,975,000 shares. The expiration date of the Plan is December 17, 2030, unless the 2014 Plan is terminated earlier by the Board or is extended by the Board with the approval of the stockholders. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant.

All stock awards typically include dividend accrual equivalents, which means that any dividends paid by the Company during the vesting period become due and payable after the vesting period assuming the grantee's stock award fully vests. Dividends for these grants are accrued on the dividend payment dates and included in accounts payable and accrued expenses on the accompanying consolidated balance sheet. As of July 1, 2023, there were no accrued dividends. Dividends for stock awards that ultimately do not vest are forfeited.

As of July 1, 2023, under the 2014 Plan, 497,561 time-based shares were outstanding, 100,000 performance-based restricted stock awards were outstanding and 605,629 shares were available for awards thereunder.

<u>Time-Based Restricted Stock Awards</u>

From time-to-time the Company issues time-based restricted stock awards. The following summarizes the activity in the time-based restricted stock awards under the 2014 Plan during the twenty-six weeks ended July 1, 2023:

	Number of Time-Based Restricted Stock Awards	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at December 31, 2022	274,939	$3.59
Granted	288,893	$13.00
Vested	(57,669)	$2.88
Forfeited or expired	(8,602)	$1.55
Outstanding non-vested at July 1, 2023	497,561	$9.17

Based on the closing price of the Company's common stock of $18.40 per share on June 30, 2023 (the last trading day prior to July 1, 2023), the intrinsic value of the time-based non-vested restricted stock awards at July 1, 2023 was approximately $9.2 million. As of July 1, 2023, there was approximately $3.5 million of total unrecognized compensation cost related to time-based restricted stock awards, which is expected to be recognized over the average weighted remaining vesting period of the restricted stock awards through fiscal 2027.

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

10. Share-Based Compensation (Continued)

Performance-Based Restricted Stock Awards

From time-to-time the Company issues performance-based restricted stock awards to its executives. Performance-based restricted stock awards are typically vested based on certain multi-year performance metrics as determined by the Board of Directors Compensation Committee.

The following summarizes the activity in the performance-based restricted stock awards during the twenty-six weeks ended July 1, 2023:

	Number of Performance-Based Restricted Stock Awards	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at December 31, 2022	225,000	$8.73
Granted	-	-
Vested	(125,000)	$6.15
Forfeited or expired	-	-
Outstanding non-vested at July 1, 2023	100,000	$11.96

As of July 1, 2023, there was one outstanding grant for performance-based restricted stock awards issued to Bradley Vizi, the Company's Chief Executive Officer. In December 2022, the Company issued a performance-based restricted stock unit grant of 100,000 shares, subject to increase up to 125,000 shares, based on fiscal 2023 performance (the "2023 Grant"). The Company has not made a determination as to how many shares it expects to issue under the 2023 Grant.

The Company assesses at each reporting date whether achievement of any performance condition is probable and recognizes the expense when achievement of the performance condition becomes probable. The Company will then recognize the appropriate expense cumulatively in the year performance becomes probable and recognize the remaining compensation cost over the remaining requisite service period. If at a later measurement date, the Company determines that performance-based restricted stock awards deemed as likely to vest are deemed as unlikely to vest, the expense recognized will be reversed.

Share-based compensation for performance-based equity agreement was $0.2 million and $0.4 million for the thirteen weeks ended July 1, 2023 and July 2, 2022, respectively. Share-based compensation for performance-based equity agreement was $0.3 million and $0.2 million for the twenty-six weeks ended July 1, 2023 and July 2, 2022, respectively

During the twenty-six weeks ended July 1, 2023, the Company awarded 4,762 immediately vested share awards at an average price of $10.50. During the twenty-six weeks ended July 2, 2022, the Company did not award any immediately vested share awards.

11. Treasury Stock Transactions

On April 25, 2023, the Board authorized a program to repurchase shares of its common stock up to an amount not to exceed $25.0 million. This newly approved program succeeds the Company's prior repurchase program authorized in November 2021, which was substantially completed in April 2023. The program is designed to provide the Company with enhanced flexibility over the long term to optimize its capital structure. Shares of the Common Stock may be repurchased in the open market or through negotiated transactions. The program may be terminated or suspended at any time at the discretion of the Company. The Company may enter into a Rule 10b5-1 trading plan to effect a portion of the authorized purchases if the criteria set forth in the plan are met. Such a plan would enable the Company to repurchase its shares during periods outside of its normal trading windows when the Company typically would not be active in the market.

On April 24, 2023, the Company agreed to repurchase, in a private transaction approved by the Board, 333,686 shares of common stock at a per-share price of $11.91 per share.

During the twenty-six weeks ending July 1, 2023, the Company purchased 1,579,732 shares at an average price of $13.53 per share, including the aforementioned private transaction. During the twenty-six weeks ending July 2, 2022, the Company purchased 406,480 shares at an average price of $6.84. As of July 1, 2023, the Company had $18.3 million available for future treasury stock purchases.

The Company accrued $0.2 million in excise tax associated with its Treasury Stock Repurchase Plan during the twenty-six weeks ended July 1, 2023.

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

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326).* The new standard amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. In February 2020, the FASB issued ASU 2020-02, *Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842),* which amends the effective date of the original pronouncement for smaller reporting companies. ASU 2016-13 and its amendments will be effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2022. CECL estimates of expected credit losses on trade receivables over their life will be required to be recorded at inception, based on historical information, current conditions, and reasonable and supportable forecasts. The Company adopted the standard in its first quarter of 2023. There was no material impact on the results of operations.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* This standard only applies to contracts and other transactions that reference London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued due to reference rate reform. This guidance provides temporary optional expedients and exceptions to accounting guidance on contract modifications and hedge accounting to ease entities' financial reporting burdens as the market transitions from the LIBOR and other interbank offered rates to alternative reference rates. In December 2022, the FASB issued ASU No. 2022-06, *Deferral of the sunset date of Topic 848.* This update defers the sunset date from December 31, 2022 to December 31, 2024. The Company may elect to apply the amendments prospectively through December 31, 2024. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures.

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

13. Segment Information

The Company follows ASC 280, "Segment Reporting," which establishes standards for companies to report information about operating segments, geographic areas and major customers. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies (see Note 1 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2022).

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

Thirteen Weeks Ended July 1, 2023	Specialty Health Care	Engineering	Life Sciences and IT	Corporate	Total
Revenue	$35,528	$21,014	$10,493	$ -	$67,035
Cost of services	25,727	16,192	6,356	-	48,275
Gross profit	9,801	4,822	4,137	-	18,760
Selling, general and administrative	6,043	4,380	2,300	-	12,723
Depreciation and amortization of property and equipment	92	116	34	-	242
Amortization of acquired intangible assets	-	-	46	-	46
Operating income	$3,666	$326	$1,757	$ -	$5,749
Total assets as of July 1, 2023	$39,961	$42,668	$17,947	$4,961	$105,537
Property and equipment acquired	$29	$190	$2	$7	$228

Thirteen Weeks Ended July 2, 2022	Specialty Health Care	Engineering	Life Sciences and IT	Corporate	Total
Revenue	$43,457	$20,906	$9,983	$ -	$74,346
Cost of services	30,575	15,395	6,693	-	52,663
Gross profit	12,882	5,511	3,290	-	21,683
Selling, general and administrative	7,179	4,107	1,978	-	13,264
Depreciation and amortization of property and equipment	97	103	25	-	225
Operating income	$5,606	$1,300	$1,288	-	$8,194
Total assets as of July 2, 2022	$29,889	$29,523	$7,962	$5,051	$72,425
Property and equipment acquired	$21	$124	$43	$4	$192

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

13. Segment Information (Continued)

Twenty-Six Weeks Ended July 1, 2023	Specialty Health Care	Engineering	Life Sciences and IT	Corporate	Total
Revenue	$74,658	$39,504	$19,997	$ -	$134,159
Cost of services	53,185	30,365	12,555	-	96,375
Gross profit	21,473	8,869	7,442	-	37,784
Selling, general and administrative	13,241	8,298	4,580	-	26,119
Depreciation and amortization of property and equipment	199	244	70	-	513
Amortization of acquired intangible assets	-	-	91	-	91
Gain on sale of assets	-	(395)	-	-	(395)
Operating income	$8,033	$722	$2,701	$ -	$11,456
Total assets as of July 1, 2023	$39,961	$42,668	$17,947	$4,961	$105,537
Property and equipment acquired	$47	$478	$19	$15	$559

Twenty-Six Weeks Ended July 2, 2022	Specialty Health Care	Engineering	Life Sciences and IT	Corporate	Total
Revenue	$95,641	$40,804	$19,862	$ -	$156,307
Cost of services	67,758	30,059	13,387	-	111,204
Gross profit	27,883	10,745	6,475	-	45,103
Selling, general and administrative	15,149	8,219	4,043	-	27,411
Depreciation and amortization of property and equipment	217	199	47	-	463
Operating income	$12,517	$2,327	$2,385	$ -	$17,229
Total assets as of July 2, 2022	$29,889	$29,523	$7,962	$5,051	$72,425
Property and equipment acquired	$48	$289	$63	$9	$409

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

13. Segment Information (Continued)

The Company derives a majority of its revenue from offices in the United States. Revenues reported for each operating segment are all from external customers. The Company is domiciled in the United States and its segments operate in the United States, Canada, Puerto Rico and Europe. Revenue by geographic area for the thirteen and twenty-six weeks ended July 1, 2023 and July 2, 2022 was as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Revenue				
United States	$62,797	$71,189	$126,120	$149,982
Canada	1,832	1,235	3,413	2,464
Puerto Rico	1,540	1,279	3,102	2,499
Europe	866	643	1,524	1,362
	$67,035	$74,346	$134,159	$156,307

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

	July 1, 2023	December 31, 2022
Total assets		
United States	$97,247	$81,558
Canada	2,037	1,640
Puerto Rico	2,346	1,401
Europe	3,907	3,365
	$105,537	$87,964

14. Income Taxes

The Company recognized $2.8 million of income tax expense for the twenty-six weeks ended July 1, 2023, as compared to $4.7 million for the comparable prior-year period. The consolidated effective income tax rate for the current period was 26.4% as compared to 27.1% for the comparable prior-year period. The projected fiscal 2023 income tax rates as of July 1, 2023, were approximately 26.8%, 25.9% and 11.7% in the United States, Canada and Europe, respectively. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company, particularly the ratio of Canadian and European pretax income versus U.S. pretax income. The comparable prior-year period estimated income tax rates were 27.5%, 23.6% and 15.6% in the United States, Canada and Europe, respectively.

Differences between the effective tax rate and the applicable U.S. federal statutory rate may arise, primarily from the effect of state and local income taxes, share-based compensation, and potential tax credits available to the Company. The actual 2023 effective tax rate may vary from the estimate depending on the actual operating income earned in various jurisdictions, the potential availability of tax credits, and the exercise of stock options and vesting of share-based awards.

15. Contingencies

From time to time, the Company is a defendant in various legal actions that arise in the ordinary business course. These matters may relate to professional liability, tax, compensation, contract, competitor disputes, and employee-related matters and include individual and class action lawsuits, as well as inquiries and investigations by governmental agencies regarding the Company's employment and compensation practices. Additionally, some of the Company's clients may also become subject to claims, governmental inquiries and investigations, and legal actions relating to the Company's professional services. Depending upon the particular facts and circumstances, the Company may also be subject to indemnification obligations under its contracts with such clients relating to these matters.

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. The Company records a liability when management believes an adverse outcome from a loss contingency is both probable and the amount, or a range, can be reasonably estimated. From time to time, the Company must estimate the potential loss even though the party adverse to the Company has not asserted any specific amounts. Significant judgment is required to determine both the probability of loss and the estimated amount. The Company reviews its loss contingencies at least quarterly and it adjusts its accruals and/or disclosures to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, or other new information, as deemed necessary. Once established, a provision may change in the future due to new developments or changes in circumstances. The Company could increase or decrease its earnings in the period that the changes are made.

The Company is exposed to various asserted claims as of July 1, 2023, where the Company believes it has a probability of loss. Additionally, the Company is exposed to other asserted claims whereby an amount of loss has not been declared, and the Company cannot determine the potential loss. Any of these various claims could result in an unfavorable outcome or settlement that exceeds the accrued amounts. However, the Company believes that such matters will not, either individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. As of July 1, 2023, the Company has accrued $2.8 million for asserted claims.

In April 2022, a client of the Company's Industrial Processing Group alleged that a system partially designed by the Company is not operating as intended and that the Company is responsible. The Company has not determined if it has any liability. In the event of liability, the Company believes its damages are contractually limited to an amount no higher than $3.3 million. Furthermore, the Company believes that if it were found liable, any damages would be covered by insurance, subject to a deductible of $0.5 million and maximum coverage of $5.0 million. While the Company attempts to find a mutually agreeable solution, the Company has reserved $0.5 million for this project. The Company can give no assurance that its liability is limited to $3.3 million or that liability over $0.5 million, if any, will be covered by insurance.

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.

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

16. Leases

Leases are recorded in accordance with FASB ASC 842, Leases which requires lessees to recognize a right of use ("ROU") asset and an operating right of use liability for all leases with terms greater than 12 months and requires disclosures by lessees and lessors about the amount, timing and uncertainty of cash flows arising from leases.

The Company determines if an arrangement is a lease at inception. For leases where the Company is the lessee, right of use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. Right of use assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit interest rate, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments**.** The right of use asset also consists of any lease incentives received. The lease terms used to calculate the right of use asset and related lease liability include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense while the expense for finance leases is recognized as depreciation expense and interest expense using the accelerated interest method of recognition. The Company has lease agreements which require payments for lease and non-lease components. The Company has elected to account for these as a single lease component with the exception of its real estate leases.

The components of lease expense were as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Operating lease cost	$357	$432	$729	$881
Finance lease cost				
Amortization of right of use assets	$115	$106	$252	$216
Interest on lease liabilities	1	2	2	4
Total finance lease cost	$116	$108	$254	$220

Supplemental Cash Flow information related to leases was as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	$363	$437	$743	$915
Operating cash flows from finance leases	$1	$4	$3	$6
Financing cash flows from finance leases	$115	$180	$231	$271
Right of use assets obtained in exchange for lease obligations				
Operating leases	-	$58	-	$732
Finance leases	-	-	-	-

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

16. Leases (Continued)

Supplemental Balance Sheet information as of July 1, 2023 and December 31, 2022 related to leases was as follows:

	July 1, 2023	December 31, 2022
Operating leases		
Operating lease right of use assets	$3,203	$3,665
Operating right of use liability - current	($,1,091)	($1,349)
Operating right of use liability - non-current	(2,508)	(2,932)
Total operating lease liabilities	($3,599)	($4,281)
Finance leases		
Property and equipment - (right of use assets)	$926	$1,177
Accumulated depreciation	(463)	(461)
Property and equipment, net	$463	$716
Finance lease liability - current	($464)	($462)
Finance lease liability - non-current	-	(232)
Total finance lease liabilities	($464)	($694)
Weighted average remaining lease term in years		
Operating leases	7.90	6.78
Finance leases	1.00	1.50
Weighted average discount rate		
Operating leases	3.17 %	3.10 %
Finance leases	0.87 %	0.87 %

Maturities of lease liabilities are as follows:

Fiscal Year	Operating Leases	Finance Leases
2023 (After July 1, 2023)	$716	$233
2024	754	233
2025	493	-
2026	409	-
2027	302	-
Thereafter	1,456	-
Total lease payments	$4,130	$466
Less: imputed interest	(531)	(2)
Total	$3,599	$464

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

Private Securities Litigation Reform Act Safe Harbor Statement

Certain statements included herein and in other reports and public filings made by RCM Technologies, Inc. ("RCM" or the "Company") are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements regarding the adoption by businesses of new technology solutions; the use by businesses of outsourced solutions, such as those offered by the Company, in connection with such adoption; the Company's strategic and business initiatives and growth strategies; and the outcome of litigation (at both the trial and appellate levels) and arbitrations, or other business disputes, 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 life sciences, information technology and engineering services and solutions and the placement of temporary staffing personnel; (ii) the effects of the COVID-19 pandemic and endemic; (iii) the Company's ability to continue to attract, train and retain personnel qualified to meet the requirements of its clients; (iv) the Company's ability to identify appropriate acquisition candidates, complete such acquisitions and successfully integrate acquired businesses; (v) the Company's relationships with and reliance upon significant customers, and ability to collect accounts receivable from such customers; (vi) risks associated with foreign currency fluctuations and changes in exchange rates, particularly with respect to the Canadian dollar; (vii) uncertainties regarding amounts of deferred consideration and earnout payments to become payable to former shareholders of acquired businesses; (viii) 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; (ix) the Company's ability to obtain financing on satisfactory terms; (x) the reliance of the Company upon the continued service of its executive officers; (xi) the Company's ability to remain competitive in the markets that it serves; (xii) the Company's ability to maintain its unemployment insurance premiums and workers compensation premiums; (xiii) the risk of claims being made against the Company associated with providing temporary staffing services; (xiv) the Company's ability to manage significant amounts of information and periodically expand and upgrade its information processing capabilities; (xv) the risk of cyber attacks on our information technology systems or those of our third party vendors; (xvi) the Company's ability to remain in compliance with federal and state wage and hour laws and regulations; (xvii) uncertainties in predictions as to the future need for the Company's services; (xviii) uncertainties relating to the allocation of costs and expenses to each of the Company's operating segments; (ixx) the costs of conducting and the outcome of litigation, arbitrations and other business disputes involving the Company, and the applicability of insurance coverage with respect to any such litigation; (xx) the results of, and costs relating to, any interactions with shareholders of the Company who may pursue specific initiatives with respect to the Company's governance and strategic direction, including without limitation a contested proxy solicitation initiated by such shareholders, or any similar such interactions; and (xxi) other economic, competitive, health 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.

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 revenue and operations can be substantial, resulting in significant volatility in the Company's financial performance.

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

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

Nonetheless, the Company continues to believe that businesses must implement more advanced life sciences, 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 revenue from client engagements that range from the placement of contract and temporary technical consultants to project assignments that entail the delivery of end-to-end solutions. These services are primarily provided to the client at hourly rates that are established for each of the Company's consultants based upon their skill level, experience and the type of work performed.

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

Overview (Continued)

Costs of services consist primarily of salaries and compensation-related expenses for billable consultants and employees, including payroll taxes, employee benefits and insurance. Selling, general and administrative expenses consist primarily of salaries and benefits of personnel responsible for business development, recruiting, operating activities, and training, and include corporate overhead expenses. Corporate overhead expenses relate to salaries and benefits of personnel responsible for corporate activities, including the Company's corporate marketing, administrative and financial reporting responsibilities and acquisition program. The Company records these expenses when incurred. Corporate overhead expenses are allocated to the segments based on revenue for the purpose of segment financial reporting.

Critical Accounting Policies and Use of Estimates

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

A summary of our significant accounting policies is included in our Consolidated Financial Statements, Note 1, *Summary of Significant Accounting Policies*, in our Annual Report on Form 10-K for the year ended December 31, 2022. Certain of our accounting policies are considered critical, as these policies require significant, difficult or complex judgments by management, often requiring the use of estimates about the effects of matters that are inherently uncertain. Such policies are summarized in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2022.

Recently Issued Accounting Pronouncements

A discussion of the recently issued accounting pronouncements is set forth in Note 12, New Accounting Standards and Updates from the Securities and Exchange Commission, in the unaudited condensed consolidated financial statements included in Part I, Item I of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Forward-looking Information

The Company's growth prospects are influenced by broad economic trends. The pace of customer capital spending programs, new product launches and similar activities have a direct impact on the need for engineering, life sciences and information technology services. When the U.S., Canadian or global economies decline, the Company's operating performance could be adversely impacted. In addition, global events such as the ongoing COVID-19 pandemic and endemic also have a substantial impact on our operations and financial results. 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, general economic declines could result in the need for future cost reductions or changes in strategy.

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

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

Thirteen Weeks Ended July 1, 2023 Compared to Thirteen Weeks Ended July 2, 2022

A summary of operating results for the thirteen weeks ended July 1, 2023 and July 2, 2022 is as follows (in thousands):

	July 1, 2023		July 2, 2022	
	Amount	% of Revenue	Amount	% of Revenue
Revenue	$67,035	100.0	$74,346	100.0
Cost of services	48,275	72.0	52,663	70.8
Gross profit	18,760	28.0	21,683	29.2
Selling, general and administrative	12,273	18.9	13,264	18.1
Depreciation and amortization of property and equipment	242	0.4	225	0.3
Amortization of acquired intangible assets	46	0.1	-	0.0
Operating costs and expenses	13,011	19.4	13,489	18.4
Operating income	5,749	8.6	8,194	11.2
Other expense, net	418	0.7	(28)	0.0
Income before income taxes	5,331	7.9	8,222	11.2
Income tax expense	1,348	2.0	2,208	3.0
Net income	$3,983	5.9	$6,014	8.2

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarters ended July 1, 2023 and July 2, 2022 consisted of thirteen weeks each.

Revenue. Revenue decreased 9.8%, or $7.3 million, for the thirteen weeks ended July 1, 2023 as compared to the thirteen weeks ended July 2, 2022 (the "comparable prior-year period"). Revenue decreased $7.9 million in the Specialty Health Care segment, increased $0.1 million in the Engineering segment and increased $0.5 million in the Life Sciences and Information Technology segment. See more detailed disclosure by segment in our Segment Discussion.

Cost of Services and Gross Profit. Cost of services decreased 8.3%, or $4.4 million, for the thirteen weeks ended July 1, 2023 as compared to the comparable prior-year period. Cost of services decreased primarily due to the decrease in revenue. Cost of services as a percentage of revenue for the thirteen weeks ended July 1, 2023 and July 2, 2022 was 72.0% and 70.8%, respectively. See Segment Discussion for further information regarding changes in cost of services and gross profit.

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses were $12.3 million for the thirteen weeks ended July 1, 2023 as compared to $13.3 million for the comparable prior-year period. As a percentage of revenue, SGA expenses were 18.9% for the thirteen weeks ended July 1, 2023 and 18.1% for the comparable prior-year period. See Segment Discussion for further information on SGA expense changes.

Thirteen Weeks Ended July 1, 2023 Compared to Thirteen Weeks Ended July 2, 2022 (Continued)

Other Expense, Net. Other expense, net consists of interest expense, unused line fees and amortized loan costs on the Company's line of credit, net of interest income and gains and losses on foreign currency transactions. Other expense, net increased by $0.4 million as compared to the comparable prior year period, primarily due to an increase in interest expense, net. Interest expense increased due to increased borrowing. Borrowings increased primarily to fund treasury stock purchases.

Income Tax Expense. The Company recognized $1.3 million of income tax expense for the thirteen weeks ended July 1, 2023, as compared to $2.2 million for the comparable prior-year period. The consolidated effective income tax rate for the current period was 25.3% as compared to 26.9% for the comparable prior-year period. The projected fiscal 2023 income tax rates as of July 1, 2023, were approximately 25.8%, 24.8% and 10.1% in the United States, Canada, and Serbia, respectively. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company, particularly the ratio of Canadian and Serbian pretax income versus U.S. pretax income. The effective income tax rate can also be impacted by discrete permanent differences affecting any period presented.

Differences between the effective tax rate and the applicable U.S. federal statutory rate may arise, primarily from the effect of state and local income taxes, share-based compensation, and potential tax credits available to the Company. The actual 2023 effective tax rate may vary from the estimate depending on the actual operating income earned in various jurisdictions, the potential availability of tax credits, and the exercise of stock options and vesting of share-based awards.

Thirteen Weeks Ended July 1, 2023 Compared to Thirteen Weeks Ended July 2, 2022 (Continued)

Segment Discussion

Specialty Health Care

Specialty Health Care revenue of $35.5 million for the thirteen weeks ended July 1, 2023 decreased 18.2%, or $7.9 million, as compared to the comparable prior-year period. The decrease in revenue was driven by both the Company's school and non-school clients. Revenue from school clients for the thirteen weeks ended July 1, 2023 was $26.5 million as compared to $32.3 million for the comparable prior-year period. Revenue from non-school clients for the thirteen weeks ended July 1, 2023 was $9.0 million as compared to $11.2 million for the comparable prior-year period. Revenue decreases were primarily due to decreased demand associated with COVID-19 transitioning from a high level of activity relating to the pandemic during the thirteen weeks ended July 2, 2022 to a lesser level activity associated with the change of COVID-19 to an endemic during the thirteen weeks ended July 1, 2023. The Specialty Health Care segment's gross profit decreased by 23.9%, or $3.1 million, to $9.8 million for the thirteen weeks ended July 1, 2023, as compared to $12.9 million for the prior-year period. The decrease in gross profit was primarily driven by the decrease in revenue and a decrease in gross profit margin. Gross profit margin for the thirteen weeks ended July 1, 2023 decreased to 27.6% as compared to 29.6% for the comparable prior-year period. The decrease in gross profit margin was primarily due to a mix shift to lower margin services. Specialty Health Care experienced operating income of $3.7 million for the thirteen weeks ended July 1, 2023, as compared to $5.6 million for the comparable prior-year period. The primary reason for the decrease in operating income was the decrease in gross profit, offset by a decrease in SGA expense. SGA expense decreased by $1.2 million to $6.0 million, as compared to $7.2 million in the comparable prior-year period. The decrease in SGA expense was primarily due to a decrease in expenses associated with lower revenue and a lower allocation of corporate SGA expenses.

The Company believes that the impact of the COVID-19 pandemic helped to increase Specialty Health Care revenue and gross margin in the fourth quarter of fiscal 2021 and the first half of fiscal 2022. The Company also believes the COVID-19 pandemic began to shift to an endemic in the second half of fiscal 2022. As a result, COVID-19-related revenue has decreased. However, the Company also believes that the demand for its Healthcare services is greater than it typically had been before the COVID-19 pandemic. While the overall impact of these offsetting dynamics is uncertain, the Company believes that, except for seasonality, it is well positioned for growth in revenue going forward.

Thirteen Weeks Ended July 1, 2023 Compared to Thirteen Weeks Ended July 2, 2022 (Continued)

Segment Discussion (Continued)

Engineering

Engineering revenue of $21.0 million for the thirteen weeks ended July 1, 2023, increased 0.5%, or $0.1 million, compared to the comparable prior-year period. The increase in revenue comprised the following: an increase in Energy Services revenue of $2.1 million, offset by decreases in Aerospace revenue of $1.5 million and Industrial Processing revenue of $0.7 million. Aerospace revenue decreased primarily due to a contract reduction for the Company's major outsourcing client. The Company believes the decrease in Industrial Processing revenue was primarily due to the irregular timing of large contracts with its Industrial Processing clients. Gross profit decreased by 12.5%, or $0.7 million, compared to the prior-year period. Gross profit decreased because of a decrease in gross profit margin. The gross profit margin of 22.9% for the current period decreased from 26.4% for the comparable prior-year period. The decrease in gross profit margin was primarily due to lower utilization resulting from an increase in staff in anticipation of higher revenue. The Engineering segment experienced operating income of $0.3 million for the thirteen weeks ended July 1, 2023, as compared to $1.3 million for the comparable prior-year period. The operating income decreased due to the decline in gross profit and increased SGA expense. The Engineering segment's SGA expense of $4.4 million increased by $0.3 million, primarily due to an increased allocation of corporate SGA expenses.

Life Sciences and Information Technology

Life Sciences and Information Technology revenue of $10.5 million for the thirteen weeks ended July 1, 2023 increased by 5.1%. or $0.5 million, as compared to $10.0 million for the comparable prior-year period. Gross profit of $4.1 million for the thirteen weeks ended July 1, 2023 increased 25.8%, or $0.8 million, as compared to $3.3 million for the comparable prior-year period. The increase in gross profit was primarily due to an increase in gross profit margin. The Life Sciences and Information Technology gross profit margin for the thirteen weeks ended July 1, 2023 was 39.4% as compared to 33.0% for the comparable prior-year period. The Company attributes the gross profit margin increase to a concerted effort to increase gross profit margin through its managed service offerings and higher revenue from its RPO offering. The Life Sciences and Information Technology segment experienced operating income of $1.8 million as compared to $1.3 million for the comparable prior-year period. The increase in operating income was primarily due to an increase in gross profit, offset by an increase to SGA expense. SGA expense increased to $2.3 million as compared to $2.0 million in the comparable prior-year period. The increase in SGA expense was primarily due the acquisition of TalentHerder in the fourth quarter of fiscal 2022.

Twenty-Six Weeks Ended July 1, 2023 Compared to Twenty-Six Weeks Ended July 2, 2022

A summary of operating results for the twenty-six weeks ended July 1, 2023 and July 2, 2022 is as follows (in thousands):

	July 1, 2023		July 2, 2022	
	Amount	% of Revenue	Amount	% of Revenue
Revenue	$134,159	100.0	$156,307	100.0
Cost of services	96,375	71.8	111,204	71.1
Gross profit	37,784	28.2	45,103	28.9
Selling, general and administrative	26,119	19.4	27,411	17.7
Depreciation and amortization of property and equipment	513	0.4	463	0.3
Amortization of acquired intangible assets	91	0.1	-	0.0
Gain on sale of assets	(395)	(0.3)	-	0.0
Operating costs and expenses	26,326	19.6	27,874	18.0
Operating income	11,456	8.6	17,229	11.1
Other expense, net	825	0.6	24	0.0
Income before income taxes	10,631	8.0	17,205	11.1
Income tax expense	2,811	2.1	4,671	3.0
Net income	$7,820	5.9	$12,534	8.1

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarters ended July 1, 2023 and July 2, 2022 consisted of twenty-six weeks each.

Revenue. Revenue decreased 14.2%, or $22.2 million, for the twenty-six weeks ended July 1, 2023 as compared to the twenty-six weeks ended July 2, 2022 (the "comparable prior-year period"). Revenue decreased $21.0 million in the Specialty Health Care segment, decreased $1.3 million in the Engineering segment and increased $0.1 million in the Life Sciences and Information Technology segment. See more detailed disclosure by segment in our Segment Discussion.

Cost of Services and Gross Profit. Cost of services decreased 13.3%, or $14.8 million, for the twenty-six weeks ended July 1, 2023 as compared to the comparable prior-year period. Cost of services decreased primarily due to the decrease in revenue. Cost of services as a percentage of revenue for the twenty-six weeks ended July 1, 2023 and July 2, 2022 was 71.8% and 71.1%, respectively. See Segment Discussion for further information regarding changes in cost of services and gross profit.

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses were $26.1 million for the twenty-six weeks ended July 1, 2023 as compared to $27.4 million for the comparable prior-year period. As a percentage of revenue, SGA expenses were 19.4% for the twenty-six weeks ended July 1, 2023 and 17.7% for the comparable prior-year period. See Segment Discussion for further information on SGA expense changes.

Twenty-Six Weeks Ended July 1, 2023 Compared to Twenty-Six Weeks Ended July 2, 2022 (Continued)

Gain on Sale of Assets. On July 30, 2021, the Company sold the principal assets and certain liabilities of its Pickering and Kincardine offices, located in Ontario, Canada. These two offices were often referred to as Canada Power Systems and principally provided engineering services to two major nuclear power providers in Canada. The two Canada Power Systems offices were part of a reporting unit within the Company's Engineering segment. During the twenty-six weeks ended July 1, 2023, the Company recorded a discrete gain on the sale of these assets and liabilities of $0.4 million due to the final collection of escrow funds from the transaction.

Other Expense, Net. Other expense, net consists of interest expense, unused line fees and amortized loan costs on the Company's line of credit, net of interest income and gains and losses on foreign currency transactions. Other expense, net increased by $0.8 million as compared to the comparable prior year period, primarily due to an increase in interest expense, net. Interest expense increased due to increased borrowing. Borrowings increased primarily to fund treasury stock purchases.

Income Tax Expense. The Company recognized $2.8 million of income tax expense for the twenty-six weeks ended July 1, 2023, as compared to $4.7 million for the comparable prior-year period. The consolidated effective income tax rate for the current period was 26.4% as compared to 27.1% for the comparable prior-year period. The projected fiscal 2023 income tax rates as of July 1, 2023, were approximately 26.8%, 25.9% and 11.7% in the United States, Canada, and Europe, respectively. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company, particularly the ratio of Canadian and European pretax income versus U.S. pretax income. The effective income tax rate can also be impacted by discrete permanent differences affecting any period presented.

Differences between the effective tax rate and the applicable U.S. federal statutory rate may arise, primarily from the effect of state and local income taxes, share-based compensation, and potential tax credits available to the Company. The actual 2023 effective tax rate may vary from the estimate depending on the actual operating income earned in various jurisdictions, the potential availability of tax credits, and the exercise of stock options and vesting of share-based awards.

Twenty-Six Weeks Ended July 1, 2023 Compared to Twenty-Six Weeks Ended July 2, 2022 (Continued)

Segment Discussion

Specialty Health Care

Specialty Health Care revenue of $74.7 million for the twenty-six weeks ended July 1, 2023 decreased 21.9%, or $21.0 million, as compared to the comparable prior-year period. The decrease in revenue was driven by both the Company's school and non-school clients. Revenue from school clients for the twenty-six weeks ended July 1, 2023 was $55.8 million as compared to $73.8 million for the comparable prior-year period. Revenue from non-school clients for the twenty-six weeks ended July 1, 2023 was $18.9 million as compared to $21.8 million for the comparable prior-year period. Revenue decreases were primarily due to decreased demand associated with COVID-19 transitioning from a high level of activity relating during the twenty-six weeks ended July 2, 2022 to a lesser level activity associated with the change of COVID-19 to an endemic during the twenty-six weeks ended July 1, 2023. The Specialty Health Care segment's gross profit decreased by 23.0%, or $6.4 million, to $21.5 million for the twenty-six weeks ended July 1, 2023, as compared to $27.9 million for the prior-year period. The decrease in gross profit was primarily driven by the decrease in revenue. Gross profit margin for the twenty-six weeks ended July 1, 2023 decreased to 28.8% as compared to 29.2% for the comparable prior-year period. The decrease in gross profit margin was primarily due to a mix shift for certain lower margin services. Specialty Health Care experienced operating income of $8.0 million for the twenty-six weeks ended July 1, 2023, as compared to $12.5 million for the comparable prior-year period. The primary reason for the decrease in operating income was the decrease in gross profit, offset by a decrease in SGA expense. SGA expense decreased by $1.9 million to $13.2 million, as compared to $15.1 million in the comparable prior-year period. The decrease in SGA expense was primarily due to a decrease in expenses associated with lower revenue and a lower allocation of corporate SGA expenses.

The Company believes that the impact of the COVID-19 pandemic helped to increase Specialty Health Care revenue and gross margin in the fourth quarter of fiscal 2021 and the first half of fiscal 2022. The Company also believes the COVID-19 pandemic began to shift to an endemic in the second half of fiscal 2022. As a result, COVID-19-related revenue has decreased. However, the Company also believes that the demand for its Healthcare services is greater than it had been before the COVID-19 pandemic. While the overall impact of these offsetting dynamics is uncertain, the Company believes that, except for seasonality, it is well positioned for growth in revenue going forward.

Twenty-Six Weeks Ended July 1, 2023 Compared to Twenty-Six Weeks Ended July 2, 2022 (Continued)

Segment Discussion (Continued)

Engineering

Engineering revenue of $39.5 million for the twenty-six weeks ended July 1, 2023 decreased 3.2%, or $1.3 million, compared to the comparable prior-year period. The decrease in revenue was comprised of the following: decreases in Aerospace revenue of $1.6 million and Industrial Processing revenue of $2.3 million, offset by an increase to Energy Services revenue of $2.6 million. The decrease in Aerospace revenue was primarily due to a contract reduction for the Company's major outsourcing client. The Company believes the decrease in Industrial Processing revenue was primarily due to the irregular timing of large contracts with its Industrial Processing clients. Gross profit decreased by 17.5%, or $1.9 million, as compared to the comparable prior-year period. Gross profit decreased because of the decrease in revenue and a decrease in gross profit margin. Gross profit margin of 22.5% for the current period decreased from 26.3% for the comparable prior-year period. The decrease in gross profit margin was primarily due to lower utilization resulting from an increase in staff associated with lower revenue as the Company absorbed fixed salaried costs over lower revenue. The Engineering segment experienced operating income of $0.7 million for the twenty-six weeks ended July 1, 2023, as compared to $2.3 million for the comparable prior-year period. The decrease in operating income was due to the decrease in gross profit and an increase to SGA expense, offset by a discrete gain in the current period. The Engineering segment's SGA expense of $8.3 million increased by $0.1 million, primarily due to an increased allocation of corporate SGA expenses. The discrete gain on sale of assets was due to the final collection of escrow funds associated with the sale of the Canadian Power Systems in fiscal 2021.

Life Sciences and Information Technology

Life Sciences and Information Technology revenue of $20.0 million for the twenty-six weeks ended July 1, 2023 increased by 0.7%, or $0.1 million, as compared to $19.9 million for the comparable prior-year period. Gross profit of $7.4 million for the twenty-six weeks ended July 1, 2023 increased 14.9%, or $1.0 million, as compared to $6.4 million for the comparable prior-year period. The increase in gross profit was primarily due to an increase in gross profit margin. The Life Sciences and Information Technology gross profit margin for the twenty-six weeks ended July 1, 2023 was 37.2% as compared to 32.6% for the comparable prior-year period. The Company attributes the gross profit margin increase to a concerted effort to increase gross profit margin through its managed service offerings and higher revenue from its RPO offering. The Life Sciences and Information Technology segment experienced operating income of $2.7 million as compared to $2.4 million for the comparable prior-year period. The increase in operating income was primarily due to an increase in gross profit, offset by an increase to SGA expense. SGA expense increased to $4.6 million as compared to $4.0 million in the comparable prior-year period. The increase in SGA expense was primarily due to the acquisition of TalentHerder in the fourth quarter of fiscal 2022 and a higher allocation of corporate SGA expenses.

Liquidity and Capital Resources

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

	Twenty-Six Weeks Ended	
	July 1, 2023	July 2, 2022
Cash (used in) provided by:		
Operating activities	$16,511	$20,755
Investing activities	($559)	($453)
Financing activities	($15,215)	($17,175)

Operating Activities

Operating activities provided $16.5 million of cash for the twenty-six weeks ended July 1, 2023 as compared to providing $20.8 million in the comparable prior-year period. The major components of cash provided by operating activities in the twenty-six weeks ended July 1, 2023 and the comparable prior-year period are as follows: net income, and changes in accounts receivable, the net of transit accounts payable and transit accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and accrued payroll and related costs, and deferred revenue.

For the twenty-six weeks ended July 1, 2023, the Company experienced net income of $7.8 million as compared to $12.5 million for the comparable prior-year period. An increase in accounts receivables in the twenty-six weeks ended July 1, 2023 used $10.9 million of cash as compared to providing $3.6 million in the comparable prior-year period. The Company primarily attributes this increase in accounts receivables for the twenty-six weeks ended July 1, 2023 to normal fluctuations in accounts receivable relative to revenue.

While highly variable, the Company's transit accounts payable typically exceeds the Company's transit accounts receivable, but absolute amounts and differences fluctuate significantly from quarter to quarter in the normal course of business. The net of transit accounts payable and transit accounts receivable was a net payable of $27.3 million as of July 1, 2023 and a net payable of $6.5 million as of December 31, 2022, providing $20.8 million of cash during the twenty-six weeks ended July 1, 2023. The net of transit accounts payable and transit accounts receivable was a net payable of $0.9 million as of July 2, 2022 and a net payable of $1.1 million as of January 1, 2022, using $0.2 million of cash during the twenty-six weeks ended July 2, 2022. The increase to net transit payable as of July 1, 2023 was due to several large, multiyear EPC (Engineering, Procurement and Construction) projects starting in the Company's second fiscal quarter. In a typical EPC contract, the Company receives significant cash upfront to fund equipment procurement and construction subcontractors throughout the project.

Prepaid expenses and other current assets provided cash of $0.3 million for the twenty-six weeks ended July 1, 2023 as compared to providing $0.4 million of cash for the comparable prior-year period. The Company attributes changes to prepaid expenses and other current assets, if any, to general timing of payments in the normal course of business. Since certain expenses are paid before a fiscal year concludes and are amortized over the next fiscal year, prepaid expenses and other current assets generally tend to increase at the end of a fiscal year and decrease during the first three quarters of the following fiscal year.

Liquidity and Capital Resources (Continued)

Operating Activities (Continued)

A decrease in accounts payable and accrued expenses used cash of $1.0 million for the twenty-six weeks ended July 1, 2023 as compared to using $0.6 million for the comparable prior-year period. The Company attributes these changes to typical fluctuations in the normal course of business.

Changes in accrued payroll and related costs used cash of $1.2 million for the twenty-six weeks ended July 1, 2023 as compared to providing $3.0 million for the comparable prior-year period. There are four primary factors that generally impact accrued payroll and related costs: 1) there is a general correlation to operating expenses as payroll and related costs is the Company's largest expense group, so as operating costs increase or decrease, absent all other factors, so will the accrued payroll and related costs; 2) the Company pays the majority of its payroll every two weeks and normally has twenty-six weeks in a fiscal quarter, which means that the Company normally has a major payroll on the last business day of every other quarter; 3) the timing of various payroll related payments varies in the normal course of business; and 4) most of the Company's senior management participate in annual incentive plans and while progress advances are sometimes made during the fiscal year, these accrued bonus balances, to the extent they are projected to be achieved, generally accumulate throughout the year. A significant portion of these incentive plan accruals are typically paid at the beginning of one fiscal year, pertaining to the prior fiscal year. The Company's last major payroll for the twenty-six weeks ended July 1, 2023 was paid on June 30, 2023. During fiscal 2020, the Company deferred $3.3 million of employer payroll taxes under the CARES Act. Half of these deferred payroll taxes were paid in fiscal December 2021 and the remaining portion was paid in fiscal December 2022.

Historically, the Company has experienced small deferred revenue balances. In fiscal 2022, the Company's Industrial Processing group secured several contracts with front-loaded payments, thereby generating larger deferred revenue balances than typically generated. As a result, the Company's deferred revenue balance as of July 1, 2023 was $0.5 million, compared to $1.1 million as of December 31, 2022, using cash from operations of $0.6 million for the twenty-six weeks ended July 1, 2023. While the Company expects to receive future upfront payments from its Industrial Processing clients, the Company cannot reasonably forecast deferred revenue balances as the timing of contract wins and front-loaded payments are typically haphazard.

Investing Activities

Investing activities used $0.6 million for the purchase of property and equipment in the current period as compared to using $0.5 million in the comparable prior-year period.

Financing Activities

Financing activities used $15.2 million of cash for the twenty-six weeks ended July 1, 2023 as compared to using $17.2 million in the comparable prior-year period. The Company made net borrowings under its line of credit of $6.1 million during the twenty-six weeks ended July 1, 2023 as compared to making net payments of $14.2 million in the comparable prior-year period. The Company used $21.1 million to repurchase shares of its common stock in the current period as compared to $2.8 million in the comparable prior-year period. The Company generated cash of $0.3 million from sales of shares from its equity plans for the current period and $0.1 million for the comparable prior-year period.

Liquidity and Capital Resources (Continued)

Financing Activities (Continued)

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) SOFR (Secured Overnight Financing Rate) (which replaced LIBOR (London Interbank Offered Rate) upon the phasing out of LIBOR), plus applicable margin, typically borrowed in fixed 30-day increments, plus applicable margin, typically borrowed in fixed 30-day increments or (ii) the agent bank's prime rate generally borrowed over shorter durations. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense. The effective weighted average interest rate, including unused line fees, for the twenty-six weeks ended July 1, 2023 and July 2, 2022 were 6.3% and 1.9%, respectively.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as a covenant that restricts the Company's ability to borrow in order to pay dividends. As of July 1, 2023, the Company was in compliance with all covenants contained in the Revolving Credit Facility. The Company believes that it will maintain compliance with its financial covenants for the foreseeable future.

Borrowings under the line of credit as of July 1, 2023 and December 31, 2022 were $14.9 million and $8.8 million, respectively. There were letters of credit outstanding at July 1, 2023 and December 31, 2022 for $2.0 million and $1.9 million, respectively. At July 1, 2023 and December 31, 2022, the Company had availability for additional borrowings under the Revolving Credit Facility of $28.1 million and $34.3 million, respectively.

In addition to borrowings and sales of shares from its equity plans, the Company may raise capital through sales of shares of common stock under its at the market issuance program (the "ATM Program") established under its May 2021 At Market Issuance Sales Agreement with B. Riley Securities, Inc., as the agent (the "Agent"). The ATM Program allows the Company to offer and sell shares of the common stock having an aggregate sales price of up to $25.0 million from time to time through the Agent. To date, the Company has not sold any shares under the ATM Program.

Current Liquidity and Revolving Credit Facility

Liquidity is a measure of our ability to meet potential cash requirements, maintain our assets, fund our operations, and meet the other general cash needs of our business. Our liquidity is impacted by general economic, financial, competitive, and other factors beyond our control. Our liquidity requirements consist primarily of funds necessary to pay our expenses, principally labor-costs, and other related expenditures. We generally satisfy our liquidity needs through cash provided by operations and, when necessary, our revolving line of credit from Citizens Bank. The Company believes it has a great deal of flexibility to reduce its costs if it becomes necessary. The Company believes that it can satisfy its liquidity needs for at least the next 12 months.

Liquidity and Capital Resources (Continued)

Current Liquidity and Revolving Credit Facility (Continued)

The Company's liquidity and capital resources as of July 1, 2023, included accounts receivable and total current asset balances of $61.6 million and $77.1 million, respectively. Current liabilities were $64.6 million as of July 1, 2023 and were exceeded by total current assets by $12.5 million.

The Company experiences volatility in its daily cash flow and, at times, relies on the revolving line of credit to provide daily liquidity for the Company's financial operations. As of July 1, 2023, the Company was in compliance with all financial covenants contained in the Revolving Credit Facility. The Company believes that it will maintain compliance with its financial covenants for the foreseeable future.

Commitments and Contingencies

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

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

The Company is exposed to various asserted claims as of July 1, 2023, where the Company believes it has a probability of loss. Additionally, the Company is exposed to other asserted claims whereby an amount of loss has not been declared, and the Company cannot determine the potential loss. Any of these various claims could result in an unfavorable outcome or settlement that exceeds the accrued amounts. However, the Company believes that such matters will not, either individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. As of July 1, 2023, the Company has accrued $2.8 million for asserted claims.

In April 2022, a client of the Company's Industrial Processing Group alleged that a system partially designed by the Company is not operating as intended and that the Company is responsible. The Company has not determined if it has any liability. In the event of liability, the Company believes its damages are contractually limited to an amount no higher than $3.3 million. Furthermore, the Company believes that if it were found liable, any damages would be covered by insurance, subject to a deductible of $0.5 million and maximum coverage of $5.0 million. While the Company attempts to find a mutually agreeable solution, the Company has reserved $0.5 million for this project. The Company can give no assurance that its liability is limited to $3.3 million or that liability over $0.5 million, if any, will be covered by insurance.

Liquidity and Capital Resources (Continued)

Commitments and Contingencies (Continued)

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.

The Company utilizes SAP software for its financial reporting and accounting system which was implemented in 1999 and has not undergone significant upgrades since its initial implementation. The Company is currently implementing an upgrade of its current system and expects to go live in 2024. The Company estimates this upgrade or replacement of its financial reporting and accounting system will cost between $0.5 million and $1.0 million. These estimates are subject to material change.

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

The Company leases office facilities and various equipment under non-cancelable leases expiring at various dates through November 2027. Certain leases are subject to escalation clauses based upon changes in various factors.

Maturities of lease liabilities are as follows:

Fiscal Year	Operating Leases	Finance Leases
2023 (After July 1, 2023)	$716	$233
2024	754	233
2025	493	-
2026	409	-
2027	302	-
Thereafter	1,456	-
Total lease payments	$4,130	$466
Less: imputed interest	(531)	(2)
Total	$3,599	$464

Future Contingent Payments

As of July 1, 2023, the Company had two active acquisition agreements whereby additional contingent consideration may be earned by the sellers: 1) effective September 30, 2018, the Company acquired certain assets of Thermal Kinetics Engineering, PLLC and Thermal Kinetics Systems, LLC (together, "TKE"), and 2) effective October 2, 2022, the Company acquired certain assets of TalentHerder LLC. The Company estimates future contingent payments at July 1, 2023 as follows:

	Total
The four quarters following July 1, 2023	$300
Thereafter	1,671
Estimated future contingent consideration payments	$1,971

Estimates of future contingent payments are subject to significant judgment and actual payments may materially differ from estimates. The Company estimates future contingent consideration payments based on forecasted performance and recorded the fair value of those expected payments as of July 1, 2023. Contingent consideration related to acquisitions is recorded at fair value (level 3) with changes in fair value recorded in other (expense) income, net.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of the Revolving Credit Facility. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of July 1, 2023, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Based on the Company's variable-rate line of credit balances during the twenty-six weeks ended July 1, 2023, if the interest rate on the Company's variable-rate line of credit (using an incremental borrowing rate) during the period had been 1.0% higher, the Company's interest expense on an annualized basis would have increased by $0.2 million. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Company's Principal Executive Officer and Principal 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. As previously disclosed under "Item 9A. Controls and Procedures" in our Annual Report on Form 10-K for our fiscal year ended December 31, 2022, we identified deficiencies described below that existed as of December 31, 2022, and continued to exist at July 1, 2023. Based on our evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures (as such term is defined in Rule(s) 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective as of July 1, 2023, because of the material weaknesses in our internal control over financial reporting described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management identified the following control deficiencies that resulted in material weaknesses in our internal control over financial reporting as of December 31, 2022. The Company did not design and maintain information technology controls relevant to preparing its financial statements, specifically concerning (i) separation of duties to the SAP ERP and General Ledger, (ii) adequate restriction of administrator-type access to SAP, (iii) program change management controls, and (iv) user access controls that ensure appropriate segregation of duties and adequately restrict user access to financial applications, programs, and data. As a result, the Company's related process-level IT-dependent manual and automated controls that rely upon the affected ITGCs, or information coming from IT systems with affected ITGCs, were also deemed ineffective.

This material weakness did not result in a misstatement of our annual or interim consolidated financial statements.

Planned Material Weakness Remediation Activities

To address these material weaknesses, we have commenced actions to formalize the Company's framework and policies to maintain evidence in the operation of control procedures and improve our IT general controls. Our planned remediation efforts related to the above-identified material weaknesses include, but are not limited to:

- Investments to upgrade or replace existing systems that do not have the appropriate infrastructure to meet the requirements of our internal control framework.
- Expand the available resources at the Company with experience designing and implementing control activities, including information technology general controls, with the advice from third-party consultants and specialists.
- Assess segregation of duties and implement an annual user access review, including role design and process transformation to appropriately mitigate significant risks associated with conflicting responsibilities in financial systems.
- Design and implement IT controls in change management that will ensure all changes are tested in staging, approved, and documented, and ensure that developers cannot deploy their own code to production.
- Perform additional training to ensure a clear understanding of risk assessment, controls, and monitoring activities related to automated processes, systems, and ITGCs related to financial reporting.

We will continue to assess the effectiveness of our internal control over financial reporting and take steps to remediate the known material weaknesses expeditiously. The implementation of these remediation efforts is in progress, may require additional expenditures to implement, and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles, and as a result, the timing of when we will be able to remediate the material weaknesses fully is uncertain. We may also conclude that additional measures may be required to remediate the material weakness in our internal control over financial reporting, which may necessitate further implementation and evaluation time.

Changes in Internal Control Over Financial Reporting

Other than the material weaknesses and remediation efforts described above, there have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the twenty-six weeks ended July 1, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The company is making ongoing progress on its remediation plan to address the material weakness previously disclosed. A final assessment of remediation efforts will be conducted as part of our annual review of internal controls over financial reporting.

ITEM 1. LEGAL PROCEEDINGS

See discussion of Contingencies in Note 15 to the Condensed Consolidated Financial Statements included in Item 1 of this report.

ITEM 1A. RISK FACTORS

For information regarding factors that could affect the Company's business, see the risk factors discussed under Part I, Item 1A, Risk Factors, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

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

The following table presents the Company's purchases of common stock completed during the second quarter of 2023:

Period	Total Number of Shares Purchased	Weighted 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
April 2, 2023 - April 30, 2023	508,898 (1)	$11.85	175,212	$25,000,000
May 1, 2023 - May 31, 2023	270,180	$14.14	270,180	$21,180,000
June 1, 2023 - July 1, 2023	160,076	$17.85	160,076	$18,320,000
Total	939,154 (1)	$13.53	605,468	

(1) Includes 333,686 shares purchased in a private transaction on April 24, 2023 for $11.91 per share.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1*	Certification of Principal Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Principal Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1**	Certification of Principal Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)
32.2**	Certification of Principal Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)
101.INS*	XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Documents
101.DEF*	Inline XBRL Taxonomy Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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* Filed herewith
** Furnished herewith

SIGNATURES

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

RCM Technologies, Inc.

Date: August 10, 2023	By: /s/ Bradley S. Vizi **Bradley S. Vizi** Executive Chairman and President (Principal Executive Officer and Duly Authorized Officer of the Registrant)
Date: August 10, 2023	By: /s/ Kevin D. Miller **Kevin D. Miller** Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer of the Registrant)