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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 27, 2020**

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 [X] 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 [X] 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 [X] Smaller Reporting Company [X] 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 [X]

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

Common Stock, $0.05 par value, 11,463,655 shares outstanding as of August 11, 2020.

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 consolidated revenues contributed by a concentrated group of customer during the twenty-six week period ended June 27, 2020; 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 28, 2019 and Part II, Item 1A “Risk Factors” of subsequent Quarterly Reports on Form 10-Q, including this Form 10-Q.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 27, 2020 and December 28, 2019
(In thousands, except share and per share amounts)

	June 27, 2020	December 28, 2019
	(Unaudited)	
Current assets:		
Cash and cash equivalents	$1,632	$1,847
Accounts receivable, net	39,519	59,760
Transit accounts receivable	159	4,906
Prepaid expenses and other current assets	2,336	4,144
Total current assets	43,646	70,657
Property and equipment, net	2,357	2,717
Other assets:		
Deposits	169	209
Deferred tax asset, net, domestic	2,438	-
Goodwill	16,354	16,354
Operating right of use asset	4,958	5,820
Intangible assets, net	256	416
Total other assets	24,175	22,799
Total assets	$70,178	$96,173
Current liabilities:		
Accounts payable and accrued expenses	$8,742	$6,220
Transit accounts payable	709	4,552
Accrued payroll and related costs	8,641	7,713
Finance lease payable	302	315
Income taxes payable	261	130
Operating right of use liability	1,997	2,134
Liability for contingent consideration from acquisitions	500	344
Total current liabilities	21,152	21,408
Deferred tax liability, foreign	369	382
Deferred tax liability, net, domestic	-	395
Finance lease payable	41	189
Liability for contingent consideration from acquisitions	2,286	2,714
Operating right of use liability	3,199	3,921
Note payable	2,230	-
Borrowings under line of credit	17,363	34,761
Total liabilities	46,640	63,770
Commitments and contingencies (note 16)		
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; 16,010,694 shares issued and 11,329,383 shares outstanding at June 27, 2020 and 15,826,891 shares issued and 13,003,719 shares outstanding at December 28, 2019	800	791
Additional paid-in capital	108,819	108,452
Accumulated other comprehensive loss	(2,822)	(2,748)
Accumulated deficit	(66,042)	(59,105)
Treasury stock (4,681,311) shares at June 27, 2020 and (2,823,172) at December 28, 2019 at cost	(17,217)	(14,987)
Stockholders' equity	23,538	32,403
Total liabilities and stockholders' equity	$70,178	$96,173

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Thirteen and Twenty-Six Week Periods Ended June 27, 2020 and June 29, 2019
(Unaudited)
(In thousands, except per share amounts)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Revenue	$32,652	$50,705	$77,685	$102,300
Cost of services	24,149	37,902	58,339	76,980
Gross profit	8,503	12,803	19,346	25,320
Operating costs and expenses				
Selling, general and administrative	8,994	10,202	19,231	20,667
Depreciation and amortization of property and equipment	246	325	501	640
Amortization of acquired intangible assets	80	83	160	165
Write-off of receivables and professional fees incurred related to arbitration	350	-	8,397	-
Operating costs and expenses	9,670	10,610	28,289	21,472
Operating (loss) income	(1,167)	2,193	(8,943)	3,848
Other expense (income)				
Interest expense and other, net	184	458	524	887
Imputed interest on contingent consideration	36	48	72	96
Loss (gain) on foreign currency transactions	13	(23)	46	(34)
Other expense, net	233	483	642	949
(Loss) income before income taxes	(1,400)	1,710	(9,585)	2,899
Income tax (benefit) expense	(408)	459	(2,648)	185
Net (loss) income	($992)	$1,251	($6,937)	$2,714
Basic and diluted net (loss) earnings per share	($0.08)	$0.10	($0.54)	$0.21

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
Twenty-Six Week Periods Ended June 27, 2020 and June 29, 2019
(Unaudited)
(In thousands)

	June 27, 2020	June 29, 2019
Net (loss) income	($6,937)	$2,714
Other comprehensive (loss) income	(74)	23
Comprehensive (loss) income	($7,011)	$2,737

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Twenty-Six Week Periods Ended June 27, 2020 and June 29, 2019
(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 28, 2019	15,826,891	$791	$108,452	($2,748)	($59,105)	2,823,172	($14,987)	$32,403
Issuance of stock under employee stock purchase plan	57,251	3	137	-	-	-	-	140
Translation adjustment	-	-	-	(131)	-	-	-	(131)
Share-based compensation expense	-	-	69	-	-	-	-	69
Issuance of equity awards	60,000	3	(3)	-	-	-	-	-
Net loss	-	-	-	-	(5,945)	-	-	(5,945)
Balance, March 28, 2020	15,944,142	$797	$108,655	($2,879)	($65,050)	2,823,172	($14,987)	$26,536
Translation adjustment	-	-	-	57	-	-	-	57
Share-based compensation expense	-	-	167	-	-	-	-	167
Issuance of equity awards	66,552	3	(3)	-	-	-	-	-
Common stock repurchase	-	-	-	-	-	1,858,139	(2,230)	(2,230)
Net loss	-	-	-	-	(992)	-	-	(992)
Balance, June 27, 2020	16,010,694	$800	$108,819	($2,822)	($66,042)	4,681,311	($17,217)	$23,538

	Common Stock		Additional	Accumulated Other		Treasury Stock		
	Issued Shares	Amount	Paid-in Capital	Comprehensive Loss	Accumulated Deficit	Shares	Amount	Total
Balance, December 29, 2018	15,578,345	$778	$107,326	($2,755)	($63,163)	2,823,172	($14,987)	$27,199
Issuance of stock under employee stock purchase plan	59,451	3	162	-	-	-	-	165
Translation adjustment	-	-	-	11	-	-	-	11
Share-based compensation expense	-	-	241	-	-	-	-	241
Issuance of stock upon vesting of restricted stock units	57,148	3	(3)	-	-	-	-	-
Net income	-	-	-	-	1,463	-	-	1,463
Balance, March 30, 2019	15,694,944	$784	$107,726	($2,744)	(61,700)	2,823,172	($14,987)	$29,079
Translation adjustment	-	-	-	12	-	-	-	12
Share-based compensation expense	-	-	207	-	-	-	-	207
Issuance of stock upon vesting of restricted stock units	25,000	1	(1)	-	-	-	-	-
Net income	-	-	-	-	1,251	-	-	1,251
Balance, June 29, 2019	15,719,944	$785	$107,932	($2,732)	($60,449)	2,823,172	($14,987)	$30,549

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Twenty-Six Week Periods Ended June 27, 2020 and June 29, 2019
(Unaudited)
(In thousands)

	June 27, 2020	June 29, 2019
Cash flows from operating activities:		
Net (loss) income	($6,937)	$2,714
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	661	805
Imputed interest on contingent consideration	72	96
Share-based compensation expense	236	448
Provision for losses on accounts receivable	7,855	72
Deferred income tax (benefit) expense	(2,847)	73
Changes in assets and liabilities:		
Accounts receivable	12,227	(5,911)
Prepaid expenses and other current assets	1,786	658
Net of transit accounts receivable and payable	907	962
Accounts payable and accrued expenses	2,739	(1,465)
Accrued payroll and related costs	950	(1,217)
Right of use assets and liabilities	3	259
Income taxes payable	131	29
Total adjustments	24,720	(5,191)
Net cash provided by (used in) operating activities	17,783	(2,477)
Cash flows from investing activities:		
Property and equipment acquired	(151)	(238)
Decrease in deposits	40	-
Net cash used in investing activities	(111)	(238)
Cash flows from financing activities:		
Borrowings under line of credit	33,266	52,231
Repayments under line of credit	(50,664)	(48,828)
Issuance of stock for employee stock purchase plan	140	165
Changes in finance lease obligations	(161)	146
Contingent consideration paid	(345)	(574)
Net cash (used in) provided by financing activities	(17,764)	3,140
Effect of exchange rate changes on cash and cash equivalents	(123)	(39)
(Decrease) increase in cash and cash equivalents	(215)	386
Cash and cash equivalents at beginning of period	1,847	482
Cash and cash equivalents at end of period	$1,632	$868
Supplemental cash flow information:		
Cash paid for:		
Interest	$741	$828
Income taxes	$59	$92
Non-cash financing activities:		
Vesting of restricted stock units	$256	$300
Note payable for purchase of treasury stock	$2,230	-

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

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

1. Basis of Presentation

The accompanying consolidated interim financial statements of RCM Technologies, Inc. and subsidiaries ("RCM" or the "Company") are unaudited. The year-end consolidated balance sheet was derived from audited statements but does not include all disclosures required by accounting principles generally accepted in the United States. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the Company's consolidated financial statements and the notes thereto for the year ended December 28, 2019 included in the Company's Annual Report Form 10-K for such period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

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

Results for the thirteen and twenty-six week periods ended June 27, 2020 are not necessarily indicative of results that may be expected for the full year.

<u>Fiscal Year</u>

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal year ended December 28, 2019 (fiscal 2019) was a 52-week reporting year. The current fiscal year ending January 2, 2021 (fiscal 2020) is a 53-week reporting year. The fiscal quarters for the current year (fiscal 2020) and the prior year (fiscal 2019) align as follows:

Fiscal 2020 Quarters	Weeks	Fiscal 2019 Quarters	Weeks
March 28, 2020	Thirteen	March 30, 2019	Thirteen
June 27, 2020	Thirteen	June 29, 2019	Thirteen
September 26, 2020	Thirteen	September 28, 2019	Thirteen
January 2, 2021	Fourteen	December 28, 2019	Thirteen

<u>Current Liquidity and Revolving Credit Facility</u>

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 expects to have positive cash flow over at least the next two quarters and 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 twelve months.

The Company's liquidity and capital resources as of June 27, 2020, included accounts receivable and total current asset balances of $39.5 million and $43.6 million, respectively. Current liabilities were $21.2 million as of June 27, 2020 and were exceeded by total current assets by $22.5 million.

1. Basis of Presentation (Continued)

Current Liquidity and Revolving Credit Facility (Continued)

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 June 27, 2020, 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.

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 calculate an allowance for doubtful accounts on its accounts receivables, adequacy of reserves, goodwill impairment, if any, equity compensation, the tax rate applied and the valuation of certain assets and liability accounts. These estimates can be significant to the operating results and financial position of the Company. The estimates are based upon various factors including current and historical trends, as well as other pertinent industry and regulatory authority information, including the potential future effects of COVID-19. 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, and 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.

(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 and Information Technology Services 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 week periods ended June 27, 2020 and June 29, 2019:

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Engineering:				
Time and Material	$10,784	$13,528	$23,611	$27,371
Fixed Fee	3,189	5,098	4,503	10,267
Permanent Placement Services	65	(43)	87	-
Total Engineering	$14,038	$18,583	$28,201	$37,638
Specialty Health Care:				
Time and Material	10,601	$23,140	$32,654	$47,046
Permanent Placement Services	83	230	227	494
Total Specialty Health Care	$10,684	$23,370	$32,881	$47,540
Information Technology:				
Time and Material	$7,779	$8,641	$16,336	$16,950
Permanent Placement Services	151	111	267	172
Total Information Technology	$7,930	$8,752	$16,603	$17,122
	$32,652	$50,705	$77,685	$102,300

3. Revenue Recognition (Continued)

Time and Material
The Company's IT and Healthcare segments predominantly recognize revenue through time and material work while its Engineering segment recognizes revenue through both time and material and fixed fee work. The Company's time and material contracts are typically based on the number of hours worked at contractually agreed upon rates, therefore 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. On an infrequent basis, amounts paid in excess of revenue earned and recognized are recorded as deferred revenue, included in accounts payable and accrued expenses on the accompanying balance sheets. In other instances, revenue is billed and recorded based upon contractual rates per hour. Additionally, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when earned. Some contracts also limit 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, 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.

Deferred revenue was $0.3 million and $0.4 million at June 27, 2020 and December 28, 2019, respectively and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet at those dates. Revenue is recognized when the service has been performed. Deferred revenue may be recognized over a period exceeding one year from the time it was recorded on the balance sheet. For the twenty-six week periods ended June 27, 2020 and June 29, 2019, respectively, the Company recognized revenue of $0.4 million and $0.1 million that was included in deferred revenue at the beginning of each respective reporting period. For the thirteen week periods ended June 27, 2020 and June 29, 2019, the Company did not recognize any revenue that was included in deferred revenue at the beginning of each respective reporting period.

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

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

The Company's accounts receivable are comprised as follows:

	June 27, 2020	December 28, 2019
Billed	$22,578	$29,214
Accrued and unbilled	7,825	13,824
Work-in-progress	3,460	4,352
Accounts receivable subject to arbitration	7,387	14,095
Allowance for sales discounts and doubtful accounts	(1,731)	(1,725)
Accounts receivable, net	$39,519	$59,760

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. 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 $0.2 million and related transit accounts payable was $0.7 million, for a net payable of $0.5 million, as of June 27, 2020. The transit accounts receivable was $4.9 million and related transit accounts payable was $4.6 million, for a net receivable of $0.3 million, as of December 28, 2019.

The Company has a dispute with a customer that is a major utility in the United States. Both parties agreed in fiscal 2017 to resolve this dispute through binding arbitration. Arbitration hearings with this customer started in fiscal 2018. Essentially, the customer did not pay the balance of accounts receivable the Company believes were owed for certain disputed projects. As of December 28, 2019, the total amount of recorded receivables from this customer on these disputed projects was $14.1 million. Additionally, as part of the arbitration process, the customer asserted counter-claims of $10.3 million. The arbitrator rendered a decision in this dispute in April 2020, awarding the Company $7.4 million. The counter-claims asserted against the Company of $10.3 million were denied in their entirety. For the twenty-six week period ended June 27, 2020, the Company recorded a charge of $8.4 million, including $6.7 million constituting the portion of the accounts receivable relating to the disputed projects that was not awarded by the arbitrator, $0.7 million from other projects with this customer that were not part of the arbitration, $0.8 million in professional fees related to the dispute and arbitration, and $0.2 million of transit accounts receivable associated with disputed projects that were part of the arbitration. The Company decided to write off the $0.7 million of accounts receivable from other projects not part of the arbitration for business reasons.

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

5. Property and Equipment

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

Property and equipment are comprised of the following:

	June 27, 2020	December 28, 2019
Computers and systems	$4,629	$5,628
Equipment and furniture	266	319
Leasehold improvements	226	308
	5,121	6,255
Less: accumulated depreciation and amortization	2,764	3,538
Property and equipment, net	$2,357	$2,717

The Company periodically writes off fully depreciated and amortized assets. The Company wrote off fully depreciated and amortized assets of $1,284 and $1,620 during the twenty-six week periods ended June 27, 2020 and June 29, 2019, respectively. Depreciation and amortization expense of property and equipment for the twenty-six week periods ended June 27, 2020 and June 29, 2019 was $501 and $640, respectively. Depreciation and amortization of property and equipment for the thirteen week periods ended June 27, 2020 and June 29, 2019 was $246 and $325, respectively.

6. Acquisitions

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

Future Contingent Payments
As of June 27, 2020, the Company had two active acquisition agreements whereby additional contingent consideration may be earned by the former shareholders: 1) effective October 1, 2017, the Company acquired all of the stock of PSR Engineering Solutions d.o.o. Beograd (Voždovac) ("PSR") and 2) effective September 30, 2018, the Company acquired certain assets of Thermal Kinetics Engineering, PLLC and Thermal Kinetics Systems, LLC (together, "TKE"). The Company estimates future contingent payments at June 27, 2020 as follows:

Fiscal Year Ending	Total
January 2, 2021 (after June 27, 2020)	$ -
January 1, 2022	500
December 31, 2022	2,286
Estimated future contingent consideration payments	$2,786

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

6. Acquisitions (Continued)

Future Contingent Payments (Continued)

Estimates of future contingent payments are subject to significant judgment and actual payments may materially differ from estimates. Potential future contingent payments to be made to all active acquisitions after June 27, 2020 are capped at a cumulative maximum of $6.3 million. The Company estimates future contingent consideration payments based on forecasted performance and recorded the fair value of those expected payments as of June 27, 2020. During the twenty-six week period ended June 27, 2020, the Company measured contingent consideration at fair value on a non-recurring basis. Contingent consideration related to acquisitions are recorded at fair value (level 3) with changes in fair value recorded in other (expense) income, net.

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 comprehensive (loss) income. 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 comprehensive (loss) income.

The Company paid $0.3 million of contingent consideration during the twenty-six week period ended June 27, 2020 and paid $0.6 million during the twenty-six week period ended June 29, 2019.

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. During the twenty-six week period ended June 27, 2020, the Company reviewed the carrying value of goodwill due to the events and circumstances surrounding the COVID-19 pandemic. While COVID-19 has negatively impacted the Company, and the Company expects this negative impact to continue at least through the balance of fiscal 2020, the Company did not conclude in such review that this negative impact is permanent. The Company has determined that no other indicators of impairment of goodwill existed during the twenty-six week periods ended June 27, 2020 and June 29, 2019. As such, no impairment loss on the Company’s goodwill during the twenty-six week period ended June 27, 2020 was recorded as a result of such review.

The carrying amount of goodwill as of June 27, 2020 and December 28, 2019 is as follows:

Engineering	Specialty Health Care	Information Technology	Total
$11,918	$2,398	$2,038	$16,354

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

8. Intangible Assets

The Company evaluates long-lived assets and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the Company determines that it is probable that undiscounted future cash flows will not be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. Assets to be disposed of by sale, if any, are reported at the lower of the carrying amount or fair value less cost to sell. The Company's intangible assets consist of customer relationships and non-compete agreements. During the twenty-six week period ended June 27, 2020, the Company reviewed the carrying value of its intangible assets due to the events and circumstances surrounding the COVID-19 pandemic. While COVID-19 has negatively impacted the Company, and the Company expects this negative impact to continue at least through the balance of fiscal 2020, the Company does not believe at this time that this negative impact is permanent. As such, no impairment loss on the Company's intangible assets during the twenty-six week period ended June 27, 2020 was recorded as a result of such review.

All of the Company's intangible assets are associated with the Engineering segment. Intangible assets other than goodwill are amortized over their useful lives. Intangible assets are carried at cost, less accumulated amortization.

	June 27, 2020	December 28, 2019
Restricted covenants	$20	$28
Customer relationships	236	388
Total intangible assets	$256	$416

Amortization expense of intangible assets for the twenty-six week periods ended June 27, 2020 and June 29, 2019 was $160 and $165, respectively. Amortization expense of intangible assets for the thirteen week periods ended June 27, 2020 and June 29, 2019 was $80 and $83, respectively.

9. Line of Credit

The Company and its subsidiaries amended and restated its Revolving Credit Facility with Citizens Bank of Pennsylvania on October 18, 2019. As amended and restated, the Revolving Credit Facility provides for a $45.0 million revolving credit facility, has no sub-limit for letters of credit, and expires on August 8, 2023.

On June 2, 2020, the Company executed an amendment to its Revolving Credit Facility. The amendment (i) modifies certain aspects of the financial covenants under the Loan Agreement, including the definition of "Consolidated Total Funded Debt to Consolidated EBITDA Ratio" and the required compliance levels for such ratio, (ii) authorizes the stock purchase transaction completed on the same day (see footnote 12), and (iii) modifies the interest rate provisions to include customary LIBOR replacement protocols.

Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, typically borrowed in fixed 30-day increments or (ii) the agent bank's prime rate generally borrowed over shorter durations. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense. The effective weighted average interest rate, including unused line fees, for the twenty-six week periods ended June 27, 2020 and June 29, 2019 were 3.1% and 4.7%, respectively.

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

9. Line of Credit (Continued)

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as a covenant that restricts on the Company's ability to borrow in order to pay dividends. As of June 27, 2020, the Company was in compliance with all covenants contained in the Revolving Credit Facility (as amended). The June 2, 2020 amendment, among other things, modified certain aspects of the financial covenants under the Revolving Credit Facility, including the definitions relating to the financial covenant and the required compliance levels for such ratio. The Company believes that it will maintain compliance with its financial covenants for the foreseeable future.

Borrowings under the line of credit as of June 27, 2020 and December 28, 2019 were $17.4 million and $34.8 million, respectively. At June 27, 2020 and December 28, 2019 there were letters of credit outstanding for $1.7 million and $1.6 million, respectively. At June 27, 2020, the Company had availability for additional borrowings under the Revolving Credit Facility of $25.9 million.

Impact to Line of Credit from COVID-19

The Company is negatively impacted by COVID-19 as more fully described in Footnote 19 as well as the Segment Discussion, and Liquidity and Capital Resources sections in Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company believes that its current line of credit is adequate to provide the necessary liquidity while COVID-19 impacts its operations. While the Company does expect to be in compliance with its financial covenants in the line of credit for the foreseeable future, the Company can give no assurance that the line of credit will be available to the Company.

10. Per Share Data

The Company uses the treasury stock method to calculate the weighted-average shares used for diluted earnings per share. The number of common shares used to calculate basic and diluted earnings per share for the thirteen and twenty-six week periods ended June 27, 2020 and June 29, 2019 was determined as follows:

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Basic weighted average shares outstanding	12,621,593	12,880,179	12,866,571	12,868,356
Dilutive effect of outstanding restricted share units	21,466	57,932	27,009	50,727
Weighted average dilutive shares outstanding	12,643,059	12,938,111	12,893,580	12,919,083

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

10. Per Share Data (Continued)

For all periods presented, there were no anti-dilutive shares not included in the calculation of common stock equivalents as there were no stock options outstanding.

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

	June 27, 2020	December 28, 2019
Time-based restricted stock units outstanding	281,725	151,725
Performance-based restricted stock units outstanding	160,000	240,000
Future grants of options or shares	91,744	268,326
Shares reserved for employee stock purchase plan	210,626	267,877
Total	744,095	927,928

11. Share-Based Compensation

At June 27, 2020, the Company had two share-based employee compensation plans. The Company measures the fair value of share-based awards, if and when granted, based on the Black-Scholes method and using the closing market price of the Company's common stock on the date of grant. Awards vest over periods ranging from one to three years and expire within 10 years of issuance. Share-based compensation expense related to time-based awards is amortized in accordance with applicable vesting periods using the straight-line method. The Company expenses performance-based awards only when the performance metrics are likely to be achieved and the associated awards are therefore likely to vest. Performance-based share awards that are likely to vest are also expensed on a straight-line basis over the vesting period but may vest on a retroactive basis or be reversed, depending on when it is determined that they are likely to vest, or in the case of a reversal when they are later determined to be unlikely to vest.

Share-based compensation expense for the thirteen week periods ended June 27, 2020, and June 29, 2019 was $167 and $207, respectively. Share-based compensation expense for the twenty-six week periods ended June 27, 2020, and June 29, 2019 was $236 and $448, respectively. Neither of the twenty-six week periods ended June 27, 2020 and June 29, 2019 includes expense associated with performance-based restricted stock units. For the twenty-six week period ended June 27, 2020, 40,000 performance-based restricted stock units vested, for which the expense was recognized in fiscal 2019. As of June 27, 2020, all performance-based restricted stock units outstanding were deemed as unlikely to vest.

As of June 27, 2020, the Company had $0.5 million of total unrecognized compensation cost related to all time-based non-vested share-based awards and performance-based restricted stock units outstanding and deemed as likely to vest. The Company expects to recognize this expense over approximately two years. These amounts do not include a) performance-based restricted stock units deemed unlikely to vest, b) the cost of any additional share-based awards granted in future periods or c) the impact of any potential changes in the Company's forfeiture rate.

11. Share-Based Compensation (Continued)

Incentive Share-Based Plans

2014 Omnibus Equity Compensation Plan (the 2014 Plan)

The 2014 Plan, approved by the Company's shareholders in December 2014, provides for the issuance of shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or consultants and advisors utilized by the Company. In fiscal 2016, the Company amended and restated the 2014 Plan with shareholder approval to increase the aggregate number of shares of stock reserved for issuance under the Plan, originally 625,000, by an additional 500,000 shares so that the total number of shares of stock reserved for issuance under the Plan is 1,125,000 shares. The expiration date of the Plan is December 1, 2026. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant.

As of June 27, 2020, under the 2014 Plan, 281,725 time-based and 160,000 performance-based restricted share units were outstanding and 91,744 shares were available for awards thereunder.

Employee Stock Purchase Plan

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

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

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 December 30, 2019 (the first business day following the previous offering period) was 57,251. As of June 27, 2020, there were 210,626 shares available for issuance under the Purchase Plan.

Time-Based Restricted Stock Units

From time-to-time the Company issues time-based restricted stock units. These time-based restricted stock units typically include dividend accrual equivalents, which means that any dividends paid by the Company during the vesting period become due and payable after the vesting period assuming the grantee's restricted stock unit fully vests. Dividends for these grants are accrued on the dividend payment dates and included in accounts payable and accrued expenses on the accompanying consolidated balance sheet. As of June 27, 2020, there was $25 in accrued dividends. Dividends for time-based restricted stock units that ultimately do not vest are forfeited.

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

11. Share-Based Compensation (Continued)

To date, the Company has issued time-based restricted stock units only under its 2007 Omnibus Equity Compensation Plan and the 2014 Plan. The 2007 Plan has expired and there are no time-based restricted stock units outstanding thereunder. The following summarizes the activity in the time-based restricted stock units under the 2014 Plan during the twenty-six week period ended June 27, 2020:

	Number of Time-Based Restricted Stock Units	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at December 28, 2019	151,725	$3.64
Granted	165,000	$2.69
Vested	(35,000)	$4.28
Forfeited or expired	-	-
Outstanding non-vested at June 27, 2020	281,725	$3.00

Based on the closing price of the Company's common stock of $1.33 per share on June 26, 2020 (the last trading day prior to June 27, 2020), the intrinsic value of the time-based non-vested restricted stock units at June 27, 2020 was approximately $375. As of June 27, 2020, there was approximately $495 of total unrecognized compensation cost related to time-based restricted stock units, which is expected to be recognized over the average weighted remaining vesting period of the restricted stock units.

<u>Performance Based Restricted Stock Units</u>

From time-to-time the Company issues performance-based restricted stock units to its executives. Performance-based restricted stock units are typically vested based on certain multi-year performance metrics as determined by the Board of Directors Compensation Committee. These performance-based restricted stock units typically include dividend accrual equivalents, which means that any dividends paid by the Company during the vesting period become due and payable after the vesting period on any stock units that actually vest, if any. Dividends for these grants are accrued on the dividend payment dates and included in accounts payable and accrued expenses on the accompanying consolidated balance sheet. As of June 27, 2020, there were no accrued dividends for performance-based restricted stock units. Dividends for performance-based restricted stock units that ultimately do not vest are forfeited.

To date, the Company has issued performance-based restricted stock units only under the 2014 Plan. The following summarizes the activity in the performance-based restricted stock units during the twenty-six week period ended June 27, 2020:

	Number of Performance-Based Restricted Stock Units	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at December 28, 2019	240,000	$4.81
Granted	-	-
Vested	(40,000)	$4.38
Forfeited or expired	(40,000)	$4.38
Outstanding non-vested at June 27, 2020	160,000	$5.02

11. Share-Based Compensation (Continued)

Performance Based Restricted Stock Units (Continued)

As of June 27, 2020, the Company currently considers the metrics related to all 160,000 of the outstanding performance-based restricted stock units as unlikely to be achieved. The Company will reassess at each reporting date whether achievement of any performance condition is probable and would begin recognizing additional compensation cost if and when achievement of the performance condition becomes probable. The Company will then recognize the appropriate expense cumulatively in the year performance becomes probable and recognize the remaining compensation cost over the remaining requisite service period. If at a later measurement date the Company determines that performance-based restricted stock units deemed as likely to vest are deemed as unlikely to vest, the expense recognized will be reversed. As of June 27, 2020, there was approximately $0.8 million of total unrecognized compensation cost related to performance-based restricted stock units deemed unlikely to vest.

12. Treasury Stock Transactions

On June 2, 2020, the Company entered into a stock purchase agreement with certain stockholders of the Company, whereby the Company purchased an aggregate of 1,858,139 shares of the Company’s common stock for a negotiated purchase price of $1.20 per share or $2.2 million in total. The negotiated price of $1.20 per share was less than the lowest trading price of the stock on the day of the repurchase. The consideration paid by the Company consisted entirely of an unsecured subordinated promissory note for $2.2 million. The note accrues interest at an annual rate of 9.0%, compounded annually, payable quarterly in arrears commencing on September 1, 2020 and continuing on each December 1, March 1, June 1 and September 1 thereafter, and has a maturity date of August 10, 2023. Subject to the applicable provisions of the subordination agreement among the Company, Citizens Bank and the selling stockholders, the note becomes immediately due and payable in the event of a default by the Company.

The shares repurchased on June 2, 2020 were not purchased under a stock repurchase plan. The Company, at this time, does not have an open repurchase plan. The Company did not repurchase any shares in the comparable prior year period.

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326).* The new standard amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. 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. The Company believes the adoption will modify the way the Company analyzes financial instruments, but it does not anticipate a material impact on results of operations. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements.

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 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 London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The Company may elect to apply the amendments prospectively through December 31, 2022. 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)

14. Segment Information

The Company follows "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for companies to report information about operating segments, geographic areas and major customers. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies (see Note 1 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 28, 2019).

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

Thirteen Week Period Ended June 27, 2020	Engineering	Specialty Health Care	Information Technology	Corporate	Total
Revenue	$14,038	$10,684	$7,930	$ -	$32,652
Cost of services	9,804	8,487	5,858	-	24,149
Gross profit	4,234	2,197	2,072	-	8,503
Selling, general and administrative	3,349	3,208	2,437	-	8,994
Depreciation and amortization	234	70	22	-	326
Write-off of receivables and professional fees incurred related to arbitration	350	-	-	-	350
Operating income (loss)	$301	($1,081)	($387)	$ -	($1,167)
Total assets as of June 27, 2020	$40,699	$15,570	$7,815	$6,094	$70,178
Capital expenditures	$21	$ -	$20	$75	$116

Thirteen Week Period Ended June 29, 2019	Engineering	Specialty Health Care	Information Technology	Corporate	Total
Revenue	$18,583	$23,370	$8,752	$ -	$50,705
Cost of services	13,324	18,057	6,521	-	37,902
Gross profit	5,259	5,313	2,231	-	12,803
Selling, general and administrative	3,675	4,285	2,242	-	10,202
Depreciation and amortization	302	86	20	-	408
Operating income (loss)	$1,282	$942	($31)	$ -	$2,193
Total assets as of June 29, 2019	$50,520	$28,030	$8,028	$5,521	$92,099
Capital expenditures	$25	$88	$4	$20	$137

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

14. Segment Information (Continued)

Twenty-Six Week Period Ended June 27, 2020	Engineering	Specialty Health Care	Information Technology	Corporate	Total
Revenue	$28,201	$32,881	$16,603	$ -	$77,685
Cost of services	20,001	26,311	12,027	-	58,339
Gross profit	8,200	6,570	4,576	-	19,346
Selling, general and administrative	6,723	7,682	4,826	-	19,231
Depreciation and amortization	472	147	42	-	661
Write-off of receivables and professional fees incurred related to arbitration	8,397	-	-	-	8,397
Operating income (loss)	($7,392)	($1,259)	($292)	$ -	($8,943)
Total assets as of June 27, 2020	$40,699	$15,570	$7,815	$6,094	$70,178
Capital expenditures	$30	$10	$35	$76	$151

Twenty-Six Week Period Ended June 29, 2019	Engineering	Specialty Health Care	Information Technology	Corporate	Total
Revenue	$37,638	$47,540	$17,122	$ -	$102,300
Cost of services	27,682	36,593	12,705	-	76,980
Gross profit	9,956	10,947	4,417	-	25,320
Selling, general and administrative	7,491	8,779	4,397	-	20,667
Depreciation and amortization	586	177	42	-	805
Operating income (loss)	$1,879	$1,991	($22)	$ -	$3,848
Total assets as of June 29, 2019	$50,520	$28,030	$8,028	$5,521	$92,099
Capital expenditures	$87	$104	$17	$30	$238

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

14. Segment Information (Continued)

The Company derives a majority of its revenue from offices in the United States. Revenue reported for each operating segment are all from external customers. The Company is domiciled in the United States and its segments operate in the United States, Canada, Puerto Rico and Serbia. Revenue by geographic area for the thirteen and twenty-six week periods ended June 27, 2020 and June 29, 2019 are as follows:

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Revenue				
U. S.	$26,989	$44,244	$66,165	$89,546
Canada	3,641	4,500	7,643	9,088
Puerto Rico	1,383	1,209	2,585	2,412
Serbia	639	752	1,292	1,254
	$32,652	$50,705	$77,685	$102,300

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

	June 27, 2020	December 28, 2019
Total assets		
U. S.	$48,654	$75,724
Canada	13,941	13,770
Puerto Rico	2,135	2,066
Serbia	5,448	4,613
	$70,178	$96,173

15. Income Taxes

The Company recognized $2.6 million of income tax benefit for the twenty-six week period ended June 27, 2020, as compared to an income tax expense of $0.2 million for the comparable prior year period. The Company recognized a tax benefit of $0.6 million during the Company’s first fiscal quarter of 2019 due to a verbal settlement with the U.S. Internal Revenue Service regarding an uncertain tax position from a previous tax year. The consolidated effective income tax rate for the current period was 27.6% as compared to 27.1% for the comparable prior year period. The projected fiscal 2020 income tax rates as of June 27, 2020, were approximately 26.9%, 27.3%, and 15.3% 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 comparable prior year period estimated income tax rates were 28.6%, 26.5%, and 15.0% in the United States, Canada, and Serbia, 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 2020 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. The Company's estimate for the 2020 effective tax rate has not been adjusted for any potential impact related to COVID-19.

16. Contingencies

From time to time, the Company is a defendant or plaintiff in various legal actions that arise in the normal course of business. As such, the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of losses and possible recoveries. The Company may not be covered by insurance as it pertains to some or all of these matters. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. Once established, a provision may change in the future due to new developments or changes in circumstances and could increase or decrease the Company's earnings in the period that the changes are made. Asserted claims as of June 27, 2020 are uncertain as no open claims have asserted any specific amounts. As of June 27, 2020, the Company did not have an accrual for any such liabilities. As described in the following paragraph, these claims were denied in their entireties as a result of the arbitration.

The Company has a dispute with a customer that is a major utility in the United States. Both parties agreed in fiscal 2017 to resolve this dispute through binding arbitration. Arbitration hearings with this customer started in fiscal 2018. Essentially, the customer did not pay the balance of accounts receivable the Company believes were owed for certain disputed projects. As of December 28, 2019, the total amount of recorded receivables from this customer on these disputed projects was $14.1 million. Additionally, as part of the arbitration process, the customer asserted counter-claims of $10.3 million. The arbitrator rendered a decision in this dispute in April 2020, awarding the Company $7.4 million. The counter-claims asserted against the Company of $10.3 million were denied in their entirety. For the twenty-six week period ended June 27, 2020, the Company recorded a charge of $8.4 million, including $6.7 million constituting the portion of the accounts receivable relating to the disputed projects that was not awarded by the arbitrator, $0.7 million from other projects with this customer that were not part of the arbitration, $0.8 million in professional fees related to the dispute and arbitration, and $0.2 million of transit accounts receivable associated with disputed projects that were part of the arbitration. The Company decided to write off the $0.7 million of accounts receivable from other projects not part of the arbitration for business reasons.

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.

17. 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, ROU 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. ROU 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 commencement date in determining the present value of lease payments**.** The ROU asset also consists of any lease incentives received. The lease terms used to calculate the ROU 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.

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

17. Leases (Continued)

The components of lease expense were as follows:

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Operating lease cost	$647	$550	$1,303	$989
Finance lease cost				
Amortization of ROU assets	$77	$73	$155	$146
Interest on lease liabilities	2	2	4	3
Total finance lease cost	$79	$75	$159	$149

Supplemental Cash Flow information related to leases was as follows:

	Thirteen Week Period Ended		Twenty-Six Week Period Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	$664	$558	$1,327	$940
Operating cash flows from finance leases	2	1	4	3
Financing cash flows from finance leases	81	72	161	144
Right of use assets obtained in exchange for lease obligations				
Operating leases	$32	$775	$282	$6,983
Finance leases	-	-	-	-

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

17. Leases (Continued)

Supplemental Balance Sheet information as of June 27, 2020 and December 28, 2019 related to leases was as follows:

	June 27, 2020	December 28, 2019
Operating leases		
Operating lease right of use assets	$4,958	$5,820
Operating right of use liability - current	($1,997)	($2,134)
Operating right of use liability - non-current	(3,199)	(3,921)
Total operating lease liabilities	($5,196)	($6,055)
Finance leases		
Property and equipment - (ROU assets)	$984	$985
Accumulated depreciation	(630)	(475)
Property and equipment, net	$354	$510
Finance lease liability - current	(302)	($315)
Finance lease liability - non-current	(41)	(189)
Total finance lease liabilities	($343)	($504)
Weighted average remaining lease term		
Operating leases	1.64 Years	2.54 Years
Finance leases	1.39 Years	1.62 Years
Weighted average discount rate		
Operating leases	4.32 %	4.11 %
Finance leases	1.83 %	1.78 %

Maturities of lease liabilities are as follows:

Fiscal Year	Operating Leases	Finance Leases
2020	$1,198	$157
2021	1,843	169
2022	1,372	23
2023	910	-
2024	187	-
Thereafter	-	-
Total lease payments	5,510	349
Less: imputed interest	(314)	(6)
Total	$5,196	$343

18. Stockholder Rights Plan

On May 22, 2020, the Board of Directors of the Company approved a stockholder rights plan (the "Rights Plan") and declared a dividend distribution to stockholders of record as of the close of business on June 2, 2020 of one preferred stock purchase right (a "Right") for each outstanding share of Common Stock of the Company. Each Right entitles the holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Unit") of a newly-authorized series of junior participating preferred stock of the Company, upon the occurrence of certain events, as more fully described below, at a purchase price of $5.60 per Unit**.**

In connection with the adoption of the stockholder rights plan, the Company designated 250,000 shares of the Company's authorized shares of Preferred Stock, par value $1.00, as Series A-3 Junior Participating Preferred Shares, none of which are issued and outstanding. As provided in the Certificate of Designation filed by the Company with the Department of State of the State of Nevada, each Series A-3 Preferred Share shall entitle the holder 100 votes on all matters submitted to a vote of the stockholders of the Company, subject to adjustment for future dividends and combinations of common stock. The holders of Series A-3 Preferred Shares and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Company. The Series A-3 Preferred Shares shall, after issuance, be entitled to receive quarterly dividends in an amount equal to the greater of $50.00 per share or an amount per share, subject to adjustment, equal to 100 times the aggregate per share amount of all non-cash dividends or other distributions other than a dividend payable in shares of common stock or a subdivision of the outstanding shares of common stock declared on the common stock since the immediately preceding quarterly dividend payment date of the Series A-3 Preferred Shares, or, with respect to the first such quarterly dividend payment date, since the first issuance of any share or fraction of a share of the Series A-3 Preferred Shares. The Series A-3 Preferred Shares shall rank junior to all other series of the Company's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise. The Series A-3 Preferred Shares shall not be redeemable. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of Series A-3 Preferred Shares shall be entitled to receive the greater of $100.00 per share, plus accrued dividends, or an amount per share, subject to adjustment, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock. In the event the Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such event the Series A-3 Preferred Shares shall at the same time be similarly exchanged or changed in an amount per share, subject to adjustment, equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. These preferences are protected by customary anti-dilution provisions.

Initially, the Rights are not exercisable and are attached to each existing outstanding share of the Company's Common Stock. The Rights will separate and become exercisable if a person or group acquires 10% or more of the Company's Common Stock in a transaction, including the open market purchase of shares, not approved by our Board. If a person or group acquires 10%, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's exercise price (subject to adjustment as provided in the Rights Plan), a number of shares of the Company's Common Stock having a then-current market value of twice the exercise price. The Rights Plan will cause substantial dilution to a person or group that attempts to acquire control of the Company on terms or in a manner not approved by our Board.

18. Stockholder Rights Plan (Continued)

The initial issuance of the Rights as a dividend had no financial accounting or reporting impact. The fair value of the Rights was nominal because the Rights were not exercisable when issued and no value is attributable to them. Additionally, the Rights do not meet the definition of a liability under generally accepted accounting principles in the United States and are therefore not accounted for as a long-term obligation. Accordingly, unless the Rights become exercisable as discussed above, the Rights Plan has no impact on the Company's Consolidated Financial Statements**.**

The Company's Board of Directors may redeem the Rights for $0.001 per Right at any time before an event that causes the Rights to become exercisable. The Rights will expire on May 22, 2021, unless the Rights have previously been redeemed by the Board of Directors.

The Rights Plan is not intended to interfere with any merger, tender or exchange offer or other business combination approved by our Board. Nor does the Rights Plan prevent our Board from considering any offer that it considers to be in the best interest of its stockholders.

19. COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to present various health, business and other challenges throughout the United States. As a result, we have temporarily closed most of our office locations, with most of our workforce working from home, and have seen a reduction in customer demand, all resulting in a negative impact on Company revenue, gross profit, and operating income. The duration and ultimate magnitude of the disruption remains uncertain. Therefore, while we experienced a negative impact during the first half of fiscal 2020, we expect this matter to negatively impact our business, results of operations, and financial position also through at least the second half of fiscal 2020 and possibly beyond, and the related financial impact cannot be reasonably estimated at this time. Please see more detailed disclosure by segment in our Segment Discussion and the impact to our consolidated financial position under Financial Activities under Liquidity and Capital Resources, all in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 information technology and engineering services and solutions and the placement of temporary staffing personnel; (ii) the effects of the COVID-19 pandemic; (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; (ix) 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.

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

COVID-19 Considerations

The Company's priorities during the COVID-19 pandemic are protecting the health and safety of our employees and, especially in the healthcare segment, deploying our resources, including the talents of our employees, to help the communities we serve meet and overcome the current challenges. In the future, the pandemic may continue to cause reduced demand for our services if, for example, the pandemic results in a prolonged recessionary economic environment affecting industries in which we serve; however, since certain services that we offer are essential to the daily lives of our customers, we believe that over the long term, there will continue to be demand for our services.

Our ability to continue to operate without any significant negative operational impact from the COVID-19 pandemic will in part depend on our ability to protect our employees and our supply chain. The Company has endeavored to follow the recommended actions of government and health authorities to protect our employees, with particular measures in place for those working in our customer facilities. For the twenty-six week period ended June 27, 2020, while our revenue, gross profit and operating income were negatively impacted, we maintained the consistency of our operations, to a substantial degree, during the onset of the COVID-19 pandemic. We intend to continue to adhere to our employee safety measures as we seek to ensure that any disruptions to our operations remain as limited as possible during the pandemic. However, the uncertainty resulting from the pandemic could result in an unforeseen disruption to our workforce and supply chain (for example, an inability of a key supplier or transportation supplier to source and transport materials) that could negatively impact our operations.

For additional information on risk factors related to the pandemic or other risks that could impact our results, please refer to "Risk Factors" in Part II, Item 1A of this Form 10-Q. For additional information on how COVID-19 has impacted operations and our financial position, please refer to the Segment Discussion and Liquidity and Capital Resources sections in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

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

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to present various health, business and other challenges throughout the United States. As a result, we have temporarily closed most of our office locations, with most of our workforce working from home, and have seen a reduction in customer demand, all resulting in a negative impact on Company revenue, gross profit and operating income. The duration and ultimate magnitude of the disruption remains uncertain. Therefore, while we experienced a negative impact during the first half of fiscal 2020, we expect this matter to negatively impact our business, results of operations, and financial position also through at least the second half of fiscal 2020 and possibly beyond, and the related financial impact cannot be reasonably estimated at this time. Please see more detailed disclosure by segment in our Segment Discussion and the impact to our consolidated financial position under Financial Activities under Liquidity and Capital Resources, all in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

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

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

The Company provides project management and consulting services, which are billed based on either agreed-upon fixed fees or hourly rates, or a combination of both. The billing rates and profit margins for project management and solutions services are generally higher than those for professional consulting services. The Company generally endeavors to expand its sales of higher margin solutions and project management services. The Company also realizes 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 unaudited interim condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. In our unaudited interim condensed consolidated financial statements, estimates are used for, but not limited to, accounts receivable and allowance for doubtful accounts, goodwill, long-lived intangible assets, accounting for stock options and restricted stock units, insurance liabilities, accounting for income taxes and accrued bonuses.

A summary of our significant accounting policies is included in our Consolidated Financial Statements, Note 1, *Summary of Significant Accounting Policies*, in our Annual Report on Form 10-K for the year ended December 28, 2019. 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 28, 2019.

Recently Issued Accounting Pronouncements

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

Forward-looking Information

The Company's growth prospects are influenced by broad economic trends. The pace of customer capital spending programs, new product launches and similar activities have a direct impact on the need for engineering and information technology services. When the U.S., Canadian or global economies decline, the Company's operating performance could be adversely impacted. In addition, global events such as the ongoing COVID-19 pandemic 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.

Forward-looking Information (Continued)

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

Thirteen Week Period Ended June 27, 2020 Compared to Thirteen Week Period Ended June 29, 2019

A summary of operating results for the thirteen week periods ended June 27, 2020 and June 29, 2019 is as follows (in thousands):

	June 27, 2020		June 29, 2019	
	Amount	% of Revenue	Amount	% of Revenue
Revenue	$32,652	100.0	$50,705	100.0
Cost of services	24,149	74.0	37,902	74.7
Gross profit	8,503	26.0	12,803	25.3
Selling, general and administrative	8,994	27.6	10,202	20.1
Depreciation and amortization of property and equipment	246	0.8	325	0.6
Amortization of acquired intangible assets	80	0.2	83	0.2
Write-off of receivables and professional fees incurred related to arbitration	350	1.0	-	-
	9,670	29.6	10,610	20.9
Operating (loss) income	(1,167)	(3.6)	2,193	4.4
Other expense, net	233	0.7	483	1.0
(Loss) income before income taxes	(1,400)	(4.3)	1,710	3.4
Income tax (benefit) expense	(408)	(1.3)	459	0.9
Net (loss) income	($992)	(3.0)	$1,251	2.5

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarters ended June 27, 2020 and June 29, 2019 consisted of thirteen weeks each.

Revenue. Revenue decreased 35.6%, or $18.0 million, for the thirteen week period ended June 27, 2020 as compared to the thirteen week period ended June 29, 2019 (the "comparable prior year period"). Revenue decreased $4.5 million in the Engineering segment, $12.7 million in the Specialty Health Care segment and $0.8 million in the Information Technology segment. See more detailed disclosure by segment in our Segment Discussion.

The Company has material operations in Canada, primarily from the Company's Engineering segment; this business is conducted primarily in Canadian dollars. Since the Company reports its consolidated results in U.S. dollars the consolidated results are subject to potentially material fluctuations as a result of changes in the Canadian dollar to U.S. dollar exchange rate (the "Exchange Rate"). For the thirteen week period ended June 27, 2020, the Company generated total revenue from its Canadian clients of $5.0 million in U.S. dollars at an Exchange Rate of 72.1% as compared to $4.5 million in U.S. dollars at an Exchange Rate of 74.7% for the comparable prior year period.

Thirteen Week Period Ended June 27, 2020 Compared to Thirteen Week Period Ended June 29, 2019 (Continued)

Cost of Services and Gross Profit. Cost of services decreased 36.3%, or $13.8 million, for the thirteen week period ended June 27, 2020 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 week periods ended June 27, 2020 and June 29, 2019 was 74.0% and 74.7%, 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 $9.0 million for the thirteen week period ended June 27, 2020 as compared to $10.2 million for the comparable prior year period. As a percentage of revenue, SGA expenses were 27.6% for the thirteen week period ended June 27, 2020 and 20.1% for the comparable prior year period. See Segment Discussion for further information on SGA expense changes.

Write-off of receivables and professional fees incurred related to arbitration. The Company recorded an additional charge of $0.4 million during the quarter ended June 27, 2020 relating to its dispute with a customer that is a major utility in the United States. This dispute was resolved through binding arbitration in April 2020. The additional charge in the current quarter was for professional fees related to the arbitration proceedings. For the thirteen week period ended June 29, 2019, there were no such charges.

Other Expense. Other expense consists of interest expense, unused line fees and amortized loan costs on the Company's line of credit, net of interest income, imputed interest on contingent consideration and gains and losses on foreign currency transactions. Other expense, net decreased to $0.2 million as compared to $0.5 million for the comparable prior year period. The primary component of the decrease related to interest expense, which decreased primarily due to a decreased average borrowing and a decreased borrowing rate under the Company's line of credit. The primary reason for the decreased average borrowing rate was to changes in macroeconomic borrowing rates.

Income Tax (Benefit) Expense. The Company recognized $0.4 million of income tax benefit for the thirteen week period ended June 27, 2020, as compared to an income tax expense of $0.5 million for the comparable prior year period. The consolidated effective income tax rate for the current period was 29.1% as compared to 26.8% for the comparable prior year period. The projected fiscal 2020 income tax rates as of June 27, 2020, were approximately 26.5%, 26.5%, and 15.1% 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.

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 2020 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. The Company's estimate for the 2020 effective tax rate has not been adjusted for any potential impact related to COVID-19.

Thirteen Week Period Ended June 27, 2020 Compared to Thirteen Week Period Ended June 29, 2019 (Continued)

Segment Discussion

Engineering

Engineering revenues of $14.0 million for the thirteen week period ended June 27, 2020 decreased 24.5%, or $4.5 million, as compared to the comparable prior year period. The decrease was principally due to a decrease of $2.3 million from the Company's Energy Services Group, a decrease of $1.4 million from the Company's Aerospace Group, and a decrease of $0.9 million from the Company's Canadian Power Systems Group. The Company attributes these revenue declines to decreased spending on the part of several of its larger clients, a decrease in demand for power generation services, increased competition from other vendors to its Canadian Power Systems and Aerospace clients, timing of large projects from the Company's Energy Services clients, and the impact of COVID-19. Gross profit decreased by 19.1%, or $1.0 million, as compared to the comparable prior year period. Gross profit decreased primarily because of the decrease in revenue, offset by improvement to gross margin. Gross margin of 30.2% for the current period increased from 28.3% for the comparable prior year period. The increase in gross margin was primarily due to a concerted effort to improve utilization of the Engineering segment's billable consultants and a focus on higher-margin project work as opposed to lower-margin staffing. The Engineering segment experienced operating income of $0.3 million for the thirteen week period ended June 27, 2020, as compared to operating income of $1.3 million for the comparable prior year period. The primary reason for the decline in operating income was the decrease in gross profit. SGA expense decreased to $3.3 million in the current period from $3.7 million in the comparable prior year period. The decrease in SGA expense was primarily due to a concerted effort to reduce expenses to an efficient level commensurate with current revenue and gross profit.

<u>COVID-19 Impact to Engineering Segment</u>

It is difficult to assess both the current and future impact from COVID-19 to the Engineering segment, due to the high degree of uncertainty around COVID-19 and the duration and extent of the pandemic. The Engineering segment has seen a decline in its field services work as its personnel has limited access to client facilities. It is difficult to determine the impact on revenue from the loss in field services work. The Company believes that an undetermined amount of field services work will eventually return as a portion of that work is mission-critical to our clients. However, given the uncertainties around COVID-19, the Company can give no assurances that it will see an increase in field services revenue.

The Company has transitioned most of its Engineering workforce to work from home. While this has constituted a significant effort, particularly from a technology standpoint, the Company believes that this effort has been completed relatively effectively. The Company also believes that its Engineering clients have been generally supportive of these efforts and believes further that it has not lost any significant, previously awarded work. The Engineering segment continues to see new work proposals, but not at the same level as seen prior to COVID-19. The Engineering segment's general response to the effects of COVID-19 is to continue to focus on maximizing gross margin by focusing on utilization of billable consultants and maximizing the efficiency of its SGA expense. The Engineering segment and the Company, as a whole, is focused on reducing its SGA expense in the short-term while not harming the Company in the long-term. The Company plans to refine its strategy for responding to COVID-19 as the situation develops.

Thirteen Week Period Ended June 27, 2020 Compared to Thirteen Week Period Ended June 29, 2019 (Continued)

Segment Discussion (Continued)

Specialty Health Care

Specialty Health Care revenue of $10.7 million for the thirteen week period ended June 27, 2020 decreased 54.3%, or $12.7 million, as compared to the comparable prior year period. The decrease was primarily driven by school closures related to COVID-19 (see below). The Specialty Health Care segment's gross profit decreased by 58.6%, or $3.1 million, to $2.2 million for the thirteen week period ended June 27, 2020, as compared to $5.3 million for the prior year period. The decrease in gross profit was primarily driven by a decrease in revenue and a decrease in gross profit margin. Gross profit margin for the thirteen week period ended June 27, 2020 decreased to 20.6% as compared to 22.7% for the comparable prior year period. The Company primarily attributes the decrease in gross profit margin to a mix shift as the Specialty Health Care's non-school services typically generate lower gross margin than school services. Specialty Health Care experienced an operating loss of $1.1 million for the thirteen week period ended June 27, 2020, as compared to operating income of $0.9 million for the comparable prior year period. The primary reason for the decrease in operating income was the decrease to revenue, gross profit, and gross profit margin, primarily resulting from sudden school closures (see below). SGA expense decreased by $1.1 million to $3.2 million, as compared to $4.3 million in the comparable prior year period. The decrease in SGA expense was primarily due to a concerted effort to reduce SGA expense in response to the impact of COVID-19 on school services revenue, a decrease in variable SGA expense related to gross profit, and a lower allocation of corporate-generated SGA expense.

<u>COVID-19 Impact to Specialty Health Care Segment</u>

It is difficult to assess both the current and future impact from COVID-19 to the Specialty Health Care segment, due to the high degree of uncertainty around COVID-19 and the duration and extent of the pandemic, especially as it may impact schools where many of our personnel work. While the Company has worked to transition a portion of its Specialty Health Care workforce to work from home, this has been a difficult task. The Specialty Health Care segment has a small number of billable professionals performing services from home, in particular, telehealth services. The Specialty Health Care segment's telehealth services is primarily a new service offering. The majority of the Specialty Health Care segment's services are historically delivered at schools and health care facilities. The Company believes that demand for much of its non-school services is very high as a result of COVID-19. However, health care professionals, such as nurses and doctors, are scarce and difficult to recruit. Furthermore, the demand for non-COVID-19 related healthcare services is reduced at this time.

The Specialty Health Care Segment has historically derived much of its revenue from school systems. Many school systems nationwide, including most of the Company's school clients, have closed down with limited information on when, and in what manner, they will reopen. The Specialty Health Care segment generated approximately $5.7 million in revenue from schools for the thirteen weeks ended June 27, 2020, as compared to approximately $17.8 million for the comparable prior year period. It is difficult to estimate the impact of the sudden school closures on the balance of the Company's fiscal 2020 and beyond. The Company believes that at some point in the future, its school clients will return to a normalized level of operations. However, the Company can give no assurance of when or even if this normalization will occur. As a point of comparison, the Specialty Health Care Segment generated $10.4 million and $19.4 million of revenue from its school clients for the thirteen week periods ended September 28, 2019 and December 28, 2019, respectively.

Thirteen Week Period Ended June 27, 2020 Compared to Thirteen Week Period Ended June 29, 2019 (Continued)

Segment Discussion (Continued)

The Specialty Health Care's largest school clients are the New York City Department of Education, the Hawaii Department of Education, and the Chicago Public School System. The Hawaii Department of Education typically opens in early August each year. The New York City Board of Education and the Chicago Public School System typically open in early September each year. Each of these three school systems has announced that it will operate on a modified basis for the calendar 2020/2021 school year, with the Hawaii Department of Education and Chicago Public School System both indicating that the school year will begin on a remote basis, and the New York City Board of Education indicating that it expects to open the year on a "hybrid" basis, with some students physically attending school on a reduced basis and the remainder attending remotely. There are numerous factors that could influence further decisions of these school systems on their operations. This shift toward hybrid and remote operations will likely have a materially negative impact on revenue generated by the Specialty Healthcare segment.

The Specialty Health Care segment continues to see new work proposals related to non-school related revenue streams. The Specialty Health Care segment's general response to the effects of COVID-19 is to continue to focus on maximizing gross margin by focusing on utilization of billable personnel and maximizing the efficiency of its SGA expense. The Specialty Health Care segment has made significant reductions to its SGA cost structure. The Specialty Health Care segment and the Company, as a whole, are focused on reducing SGA expense in the short-term while not harming the Company in the long-term. The Company plans to refine its strategy for responding to COVID-19 as the situation develops.

Information Technology

Information Technology revenue of $7.9 million for the thirteen week period ended June 27, 2020 decreased 9.4%, or $0.8 million, as compared to $8.8 million for the comparable prior year period. The Information Technology segment's revenue declined across most of its lines of business. The Company generally attributes the decrease to the impact of COVID-19 as its runoff of backlog has not been adequately replaced with new business. Gross profit of $2.1 million for the thirteen week period ended June 27, 2020 decreased 7.1%, or $0.1 million, as compared to $2.2 million for the comparable prior year period. The decrease in gross profit was primarily due to the decrease in revenue, partially offset by an increase in gross margin. The Information Technology gross profit margin for the thirteen week period ended June 27, 2020 was 26.1% as compared to 25.5% for the comparable prior year period. The Company attributes the gross margin increase to higher utilization of the Information Technology's fixed labor consultants and a concerted effort to increase gross profit margin. SGA expense increased by $0.2 million to $2.4 million. The increase in SGA expense was primarily due to a higher allocation of corporate-generated SGA expense. The Information Technology segment experienced an operating loss of $0.4 million as compared to a negligible operating loss in the comparable prior year period. The increase in operating loss was primarily due to the decrease in gross profit.

Thirteen Week Period Ended June 27, 2020 Compared to Thirteen Week Period Ended June 29, 2019 (Continued)

Segment Discussion (Continued)

COVID-19 Impact to Information Technology Segment

It is difficult to assess both the current and future impact from COVID-19 to the Information Technology segment, due to the high degree of uncertainty around COVID-19 and the duration and extent of the pandemic. The Information Technology segment has seen a decline in its field services work as its personnel has limited access to client facilities. It is difficult to determine the impact on revenue from the loss in field services work.

The Company has transitioned most of its Information Technology workforce to work from home. While this has constituted a significant effort, particularly from a technology standpoint, the Company believes that this effort has been completed relatively effectively. The Company also believes that its Information Technology clients have been generally supportive of these efforts and believes further that it has not lost any significant, previously awarded work. The Information Technology segment continues to see new work proposals, but not at the same level as seen prior to COVID-19. The Information Technology segment's general response to the effects of COVID-19 is to continue to focus on maximizing gross margin by focusing on utilization of billable consultants and maximizing the efficiency of its SGA expense. The Information Technology segment and the Company, as a whole, is focused on reducing its SGA expense in the short-term while not harming the Company in the long-term. The Company plans to refine its strategy for responding to COVID-19 as the situation develops.

Twenty-Six Week Period Ended June 27, 2020 Compared to Twenty-Six Week Period Ended June 29, 2019

A summary of operating results for the twenty-six week periods ended June 27, 2020 and June 29, 2019 is as follows (in thousands):

	June 27, 2020		June 29, 2019	
	Amount	% of Revenue	Amount	% of Revenue
Revenue	$77,685	100.0	$102,300	100.0
Cost of services	58,339	75.1	76,980	75.2
Gross profit	19,346	24.9	25,320	24.8
Selling, general and administrative	19,231	24.8	20,667	20.2
Depreciation and amortization of property and equipment	501	0.6	640	0.6
Amortization of acquired intangible assets	160	0.2	165	0.2
Write-off of receivables and professional fees incurred related to arbitration	8,397	10.8	-	-
	28,289	36.4	21,472	21.0
Operating (loss) income	(8,943)	(11.5)	3,848	3.8
Other expense, net	(642)	0.8	(949)	1.0
(Loss) income before income taxes	(9,585)	(12.3)	2,899	2.8
Income tax (benefit) expense	(2,648)	(3.4)	185	0.2
Net (loss) income	($6,937)	(8.9)	$2,714	2.6

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal quarters ended June 27, 2020 and June 29, 2019 consisted of twenty-six weeks each.

Revenue. Revenue decreased 24.1%, or $24.6 million, for the twenty-six week period ended June 27, 2020 as compared to the twenty-six week period ended June 29, 2019 (the "comparable prior year period"). Revenue decreased $9.4 million in the Engineering segment, $14.7 million in the Specialty Health Care segment and $0.5 million in the Information Technology segment. See more detailed disclosure by segment in our Segment Discussion.

The Company has material operations in Canada, primarily from the Company's Engineering segment; this business is conducted primarily in Canadian dollars. Since the Company reports its consolidated results in U.S. dollars the consolidated results are subject to potentially material fluctuations as a result of changes in the Canadian dollar to U.S. dollar exchange rate (the "Exchange Rate"). For the twenty-six week period ended June 27, 2020, the Company generated total revenue from its Canadian clients of $10.4 million in U.S. dollars at an Exchange Rate of 73.4% as compared to $9.1 million in U.S. dollars at an Exchange Rate of 74.9% for the comparable prior year period.

Cost of Services and Gross Profit. Cost of services decreased 24.2%, or $18.6 million, for the twenty-six week period ended June 27, 2020 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 week periods ended June 27, 2020 and June 29, 2019 was 75.1% and 75.2%, respectively. See Segment Discussion for further information regarding changes in cost of services and gross profit.

Twenty-Six Week Period Ended June 27, 2020 Compared to Twenty-Six Week Period Ended June 29, 2019 (Continued)

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses were $19.2 million for the twenty-six week period ended June 27, 2020 as compared to $20.7 million for the comparable prior year period. As a percentage of revenue, SGA expenses were 24.8% for the twenty-six week period ended June 27, 2020 and 20.2% for the comparable prior year period. See Segment Discussion for further information on SGA expense changes.

Write-off of receivables and professional fees incurred related to arbitration. The Company recorded a charge of $8.4 million during the twenty-six week period ended June 27, 2020 relating to its dispute with a customer that is a major utility in the United States. This dispute was resolved through binding arbitration April 2020. The charge consisted of $6.7 million for the portion of accounts receivable previously recognized by the Company that was not awarded by the arbitrator, $0.7 million from other projects with this customer that were not part of the arbitration, $0.8 million in professional fees related to the dispute and arbitration and $0.2 million of transit accounts receivable associated with disputed projects that were part of the arbitration. The Company decided to write off the $0.7 million of accounts receivable from other projects not part of the arbitration for business reasons. For the twenty-six week period ended June 29, 2019, there were no such impairment charges.

Other Expense. Other expense consists of interest expense, unused line fees and amortized loan costs on the Company's line of credit, net of interest income, imputed interest on contingent consideration and gains and losses on foreign currency transactions. Other expense, net decreased to $0.6 million as compared to $0.9 million for the comparable prior year period. The primary component of the decrease related to interest expense, which decreased primarily due to a decreased average borrowing and a decreased borrowing rate under the Company's line of credit. The primary reason for the decreased average borrowing rate was to changes in macroeconomic borrowing rates.

Income Tax (Benefit) Expense. The Company recognized $2.6 million of income tax benefit for the twenty-six week period ended June 27, 2020, as compared to an income tax expense of $0.2 million for the comparable prior year period. The consolidated effective income tax rate for the current period was 27.6% as compared to 27.1% for the comparable prior year period. The projected fiscal 2020 income tax rates as of June 27, 2020, were approximately 26.9%, 27.3%, and 15.3% 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.

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 2020 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. The Company's estimate for the 2020 effective tax rate has not been adjusted for any potential impact related to COVID-19.

Twenty-Six Week Period Ended June 27, 2020 Compared to Twenty-Six Week Period Ended June 29, 2019 (Continued)

Segment Discussion

Engineering

Engineering revenues of $28.2 million for the twenty-six week period ended June 27, 2020 decreased 25.1%, or $9.4 million, as compared to the comparable prior year period. The decrease was principally due to a decrease of $5.8 million from the Company's Energy Services Group, a decrease of $2.3 million from the Company's Aerospace Group, and a decrease of $1.3 million from the Company's Canadian Power Systems Group. The Company attributes these revenue declines to decreased spending on the part of several of its larger clients, a decrease in demand for power generation services, increased competition from other vendors to its Canadian Power Systems and Aerospace clients, timing of large projects from the Company's Energy Services clients, and the impact of COVID-19. Gross profit decreased by 17.6%, or $1.8 million, as compared to the comparable prior year period. Gross profit decreased primarily because of the decrease in revenue, offset by improvement to gross margin. Gross margin of 29.1% for the current period increased from 26.5% for the comparable prior year period. The increase in gross margin was primarily due to a concerted effort to improve utilization of the Engineering segment's billable consultants and a focus on higher-margin project work as opposed to lower-margin staffing. The Engineering segment experienced an operating loss of $7.4 million for the twenty-six week period ended June 27, 2020, as compared to operating income of $1.9 million for the comparable prior year period. The primary reason for the operating loss in the current period was the $8.4 million write-off of receivables and professional fees incurred related to arbitration, offset by a decrease of $0.8 million to SGA expense. The decrease in SGA expense was primarily due to a concerted effort to reduce expenses to an efficient level commensurate with current revenue and gross profit.

<u>COVID-19 Impact to Engineering Segment</u>

It is difficult to assess both the current and future impact from COVID-19 to the Engineering segment, due to the high degree of uncertainty around COVID-19 and the duration and extent of the pandemic. The Engineering segment has seen a decline in its field services work as its personnel has limited access to client facilities. It is difficult to determine the impact on revenue from the loss in field services work. The Company believes that an undetermined amount of field services work will eventually return as a portion of that work is mission-critical to our clients. However, given the uncertainties around COVID-19, the Company can give no assurances that it will see an increase in field services revenue.

The Company has transitioned most of its Engineering workforce to work from home. While this has constituted a significant effort, particularly from a technology standpoint, the Company believes that this effort has been completed relatively effectively. The Company also believes that its Engineering clients have been generally supportive of these efforts and believes further that it has not lost any significant, previously awarded work. The Engineering segment continues to see new work proposals, but not at the same level as seen prior to COVID-19. The Engineering segment's general response to the effects of COVID-19 is to continue to focus on maximizing gross margin by focusing on utilization of billable consultants and maximizing the efficiency of its SGA expense. The Engineering segment and the Company, as a whole, is focused on reducing its SGA expense in the short-term while not harming the Company in the long-term. The Company plans to refine its strategy for responding to COVID-19 as the situation develops.

Twenty-Six Week Period Ended June 27, 2020 Compared to Twenty-Six Week Period Ended June 29, 2019 (Continued)

Segment Discussion (Continued)

Specialty Health Care

Specialty Health Care revenue of $32.9 million for the twenty-six week period ended June 27, 2020 decreased 30.8%, or $14.7 million, as compared to the comparable prior year period. The decrease in revenue was primarily driven by school closures related to COVID-19 (see below). The Specialty Health Care segment's gross profit decreased by 40.0%, or $4.4 million, to $6.6 million for the twenty-six week period ended June 27, 2020, as compared to $10.9 million for the prior year period. The decrease in gross profit was primarily driven by a decrease in revenue and a decrease in gross profit margin. Gross profit margin for the twenty-six week period ended June 27, 2020 decreased to 20.0% as compared to 23.0% for the comparable prior year period. The Company primarily attributes the decrease in gross profit margin to a mix shift as the Specialty Health Care's non-school services typically generate lower gross margin than school services. Specialty Health Care experienced an operating loss of $1.3 million for the twenty-six week period ended June 27, 2020, as compared to operating income of $2.0 million for the comparable prior year period. The primary reason for the decrease in operating income was the decrease to revenue, gross profit, and gross profit margin, primarily resulting from sudden school closures (see below). SGA expense decreased by $1.1 million to $7.7 million, as compared to $8.8 million in the comparable prior year period. The decrease in SGA expense was primarily due to a concerted effort to reduce SGA expense in response to the impact of COVID-19 on school services revenue, a decrease in variable SGA expense related to gross profit, and a lower allocation of corporate-generated SGA expense.

<u>COVID-19 Impact to Specialty Health Care Segment</u>

It is difficult to assess both the current and future impact from COVID-19 to the Specialty Health Care segment, due to the high degree of uncertainty around COVID-19 and the duration and extent of the pandemic, especially as it may impact schools where many of our personnel work. While the Company has worked to transition a portion of its Specialty Health Care workforce to work from home, this has been a difficult task. The Specialty Health Care segment has a small number of billable professionals performing services from home, in particular, telehealth services. The Specialty Health Care segment's telehealth services is primarily a new service offering. The majority of the Specialty Health Care segment's services are historically delivered at schools and health care facilities. The Company believes that demand for much of its non-school services is very high as a result of COVID-19. However, health care professionals, such as nurses and doctors, are scarce and difficult to recruit. Furthermore, the demand for non-COVID-19 related healthcare services is reduced at this time.

The Specialty Health Care Segment has historically derived much of its revenue from school systems. Many school systems nationwide, including most of the Company's school clients, have closed down with limited information on when, and in what manner, they will reopen. The Specialty Health Care segment generated approximately $23.2 million in revenue from schools for the twenty-six weeks ended June 27, 2020, as compared to approximately $35.8 million for the comparable prior year period. It is difficult to estimate the impact of the sudden school closures on the balance of the Company's fiscal 2020 and beyond. The Company believes that at some point in the future, its school clients will return to a normalized level of operations. However, the Company can give no assurance of when or even if this normalization will occur. As a point of comparison, the Specialty Health Care Segment generated $10.4 million and $19.4 million of revenue from its school clients for the thirteen week periods ended September 28, 2019 and December 28, 2019, respectively.

Twenty-Six Week Period Ended June 27, 2020 Compared to Twenty-Six Week Period Ended June 29, 2019 (Continued)

Segment Discussion (Continued)

The Specialty Health Care's largest school clients are the New York City Department of Education, the Hawaii Department of Education, and the Chicago Public School System. The Hawaii Department of Education typically opens in early August each year. The New York City Board of Education and the Chicago Public School System typically open in early September each year. Each of these three school systems has announced that it will operate on a modified basis for the calendar 2020/2021 school year, with the Hawaii Department of Education and Chicago Public School System both indicating that the school year will begin on a remote basis, and the New York City Board of Education indicating that it expects to open the year on a “hybrid” basis, with some students physically attending school on a reduced basis and the remainder attending remotely. There are numerous factors that could influence further decisions of these school systems on their operations. This shift toward hybrid and remote operations will likely have a materially negative impact on revenue generated by the Specialty Healthcare segment.

The Specialty Health Care segment continues to see new work proposals related to non-school related revenue streams. The Specialty Health Care segment's general response to the effects of COVID-19 is to continue to focus on maximizing gross margin by focusing on utilization of billable personnel and maximizing the efficiency of its SGA expense. The Specialty Health Care segment has made significant reductions to its SGA cost structure. The Specialty Health Care segment and the Company, as a whole, are focused on reducing SGA expense in the short-term while not harming the Company in the long-term. The Company plans to refine its strategy for responding to COVID-19 as the situation develops.

Information Technology

Information Technology revenue of $16.6 million for the twenty-six week period ended June 27, 2020 decreased 3.0%, or $0.5 million, as compared to $17.1 million for the comparable prior year period. The Information Technology segment's revenue declined across most of its lines of business. The Company generally attributes the decrease to the impact of COVID-19 as its runoff of backlog has not been adequately replaced with new business. Gross profit of $4.6 million for the twenty-six week period ended June 27, 2020 increased 3.6%, or $0.2 million, as compared to $4.4 million for the comparable prior year period. The increase in gross profit was primarily due to an increase in gross margin. The Information Technology gross profit margin for the twenty-six week period ended June 27, 2020 was 27.6% as compared to 25.8% for the comparable prior year period. The Company attributes the gross margin increase to higher utilization of the Information Technology's fixed labor consultants and a concerted effort to increase gross profit margin. SGA expense increased by $0.4 million to $4.8 million. The increase in SGA expense was primarily due to increased investments in management and sales personnel and a higher allocation of corporate-generated SGA expense. The Information Technology segment experienced an operating loss of $0.3 million as compared to a negligible operating loss in the comparable prior year period. The increase in operating loss was primarily due to the increase in SGA expense.

It is difficult to assess both the current and future impact from COVID-19 to the Information Technology segment, due to the high degree of uncertainty around COVID-19 and the duration and extent of the pandemic. The Information Technology segment has seen a decline in its field services work as its personnel has limited access to client facilities. It is difficult to determine the impact on revenue from the loss in field services work.

Twenty-Six Week Period Ended June 27, 2020 Compared to Twenty-Six Week Period Ended June 29, 2019 (Continued)

Segment Discussion (Continued)

COVID-19 Impact to Information Technology Segment

The Company has transitioned most of its Information Technology workforce to work from home. While this has constituted a significant effort, particularly from a technology standpoint, the Company believes that this effort has been completed relatively effectively. The Company also believes that its Information Technology clients have been generally supportive of these efforts and believes further that it has not lost any significant, previously awarded work. The Information Technology segment continues to see new work proposals, but not at the same level as seen prior to COVID-19. The Information Technology segment's general response to the effects of COVID-19 is to continue to focus on maximizing gross margin by focusing on utilization of billable consultants and maximizing the efficiency of its SGA expense. The Information Technology segment and the Company, as a whole, is focused on reducing its SGA expense in the short-term while not harming the Company in the long-term. The Company plans to refine its strategy for responding to COVID-19 as the situation develops.

Liquidity and Capital Resources

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

	Twenty-Six Week Periods Ended	
	June 27, 2020	June 29, 2019
Cash (used in) provided by:		
Operating activities	$17,783	($2,477)
Investing activities	($111)	($238)
Financing activities	($17,764)	$3,140

Operating Activities

Operating activities provided $17.8 million of cash for the twenty-six week period ended June 27, 2020 as compared to using $2.5 million in the comparable prior year period. The major components of cash provided by or used in operating activities in the twenty-six week period ended June 27, 2020 and the comparable prior year period are as follows: net loss or income and changes in accounts receivable, the net of transit accounts payable and transit accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses and accrued payroll and related costs.

For the twenty-six week period ended June 27, 2020, the Company experienced a net loss of $6.9 million as compared to net income of $2.7 million for the comparable prior year period. A decrease in accounts receivables in the twenty-six week period ended June 27, 2020, exclusive of the impact of the arbitration resolution, provided $12.2 million of cash as compared to using $5.9 million in the comparable prior year period. The Company primarily attributes this decrease in accounts receivables for the twenty-six week period ended June 27, 2020 to the decrease in revenue for the twenty-six week period ended June 27, 2020 as compared to the twenty-six week period ended December 28, 2019.

Liquidity and Capital Resources (Continued)

Operating Activities (Continued)

The Company's transit accounts payable usually exceeds the Company's transit accounts receivable, but absolute amounts and differences fluctuate significantly from quarter to quarter in the normal course of business. The net of transit accounts payable and transit accounts receivable was a net payable of $0.5 million as of June 27, 2020 and a net receivable of $0.4 million as of December 28, 2019, generating $0.9 million of cash during the twenty-six week period ended June 27, 2020. The net of transit accounts payable and transit accounts receivable was a net payable of $0.9 million as of June 29, 2019 and negligible as of December 29, 2018, generating $0.9 million of cash during the twenty-six week period ended June 29, 2019.

Prepaid expenses and other current assets provided cash of $1.8 million for the twenty-six week period ended June 27, 2020 as compared to $0.7 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.

An increase in accounts payable and accrued expenses provided cash of $2.7 million for the twenty-six week period ended June 27, 2020 as compared to using $1.5 million of cash for the comparable prior year period. The Company attributes these changes to a deliberate effort to defer payments for cash flow purposes and general timing of payments to vendors in the normal course of business.

Changes in accrued payroll and related costs provided $1.0 million for the twenty-six week period ended June 27, 2020 as compared to using $1.2 million for the twenty-six week period June 29, 2019. 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 week period ended June 27, 2020 was paid on June 19, 2020. Unique to fiscal 2020 and the primary reason for the increase in accrued payroll and related costs, as of June 27, 2020, the Company also deferred $1.0 million of employer payroll taxes under the CARES Act. These deferred payroll taxes must be paid in two equal installments at the end of calendar years 2021 and 2022.

Investing Activities

Investing activities used $0.1 million of cash for the twenty-six week period ended June 27, 2020 and $0.2 million for the twenty-six week period June 29, 2019. Investing activities for both periods presented were primarily related to expenditures for property and equipment.

Liquidity and Capital Resources (Continued)

Financing Activities

Financing activities used $17.8 million of cash for the twenty-six week period ended June 27, 2020 as compared to providing $3.1 million in the comparable prior year period. The Company made net payments under its line of credit of $17.4 million during the twenty-six week period ended June 27, 2020 as compared to net borrowings of $3.4 million in the comparable prior year period. The primary reasons for net payments during the twenty-six week period ended June 27, 2020 was the decrease of $12.2 million in accounts receivable before considering the impairment reduction in accounts receivable relating to the arbitration decision and the $3.7 million in cash provided by the increase to accounts payable and accrued expenses. The Company generated cash of $0.1 million and $0.2 million from sales of shares from its equity plans for the current period and the comparable prior year period, respectively. The Company paid $0.3 million of contingent consideration during the twenty-six week period ended June 27, 2020 and paid $0.6 million during the twenty-six week period ended June 29, 2019.

The Company and its subsidiaries amended and restated its Revolving Credit Facility with Citizens Bank of Pennsylvania on October 18, 2019. As amended and restated, the Revolving Credit Facility provides for a $45.0 million revolving credit facility, has no sub-limit for letters of credit, and expires on August 8, 2023.

Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, typically borrowed in fixed 30-day increments or (ii) the agent bank's prime rate generally borrowed over shorter durations. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense. The effective weighted average interest rate, including unused line fees, for the twenty-six week period ended June 27, 2020 was 3.1%.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as a covenant that restricts on the Company's ability to borrow in order to pay dividends. As of June 27, 2020, the Company was in compliance with all covenants contained in the Revolving Credit Facility (as amended). The June 2, 2020 amendment, among other things, modified certain aspects of the financial covenants under the Revolving Credit Facility, including the definitions relating to the financial covenant and the required compliance levels for such ratio. The Company believes that it will maintain compliance with its financial covenants for the foreseeable future.

Borrowings under the line of credit as of June 27, 2020 and December 28, 2019 were $17.4 million and $34.8 million, respectively. At June 27, 2020 and December 28, 2019 there were letters of credit outstanding for $1.7 million and $1.6 million, respectively. At June 27, 2020, the Company had availability for additional borrowings under the Revolving Credit Facility of $25.9 million.

On June 2, 2020, the Company entered into a stock purchase agreement with certain stockholders of the Company, whereby the Company purchased an aggregate of 1,858,139 shares of the Company's common stock for a negotiated purchase price of $1.20 per share or $2.2 million in total. The negotiated price of $1.20 per share was less than the lowest trading price of the stock on the day of the repurchase. The consideration paid by the Company consisted entirely of an unsecured subordinated promissory note for $2.2 million. The note accrues interest at an annual rate of 9.0%, compounded annually, payable quarterly in arrears commencing on September 1, 2020 and continuing on each December 1, March 1, June 1 and September 1 thereafter, and has a maturity date of August 10, 2023. Subject to the applicable provisions of the subordination agreement among the Company, Citizens Bank and the selling stockholders, the note becomes immediately due and payable in the event of a default by the Company.

Liquidity and Capital Resources (Continued)

Impact to Line of Credit from COVID-19

The Company is negatively impacted by COVID-19. While COVID-19 is expected to negatively impact revenue, gross profit, and operating income for an undetermined period of time, the Company nevertheless does expect to generate positive cash flow over a short-term period. The Company expects to experience a significant reduction in its accounts receivable. Executive management is focused on reducing its debt at this time. The Company, as a whole, is focused on maximizing the utilization of its billable personnel and reducing its SGA expense in the short-term while not harming the Company in the long-term. The Company plans to refine its strategy for responding to COVID-19 as the situation develops. The Company believes that its current line of credit is adequate to provide the necessary liquidity while COVID-19 impacts its operations. The Company believes that it will be in compliance with the financial covenants in the line of credit for the foreseeable future.

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 expects to have positive cash flow over at least the next two quarters and 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 twelve months.

The Company's liquidity and capital resources as of June 27, 2020, included accounts receivable and total current asset balances of $39.5 million and $43.6 million, respectively. Current liabilities were $21.2 million as of June 27, 2020 and were exceeded by total current assets by $22.5 million. Cash and accounts receivables, excluding prepaid assets, of $41.3 million also exceeded total current liabilities by $20.2 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 June 27, 2020, 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.

Liquidity and Capital Resources (Continued)

Commitments and Contingencies (Continued)

The Company has a dispute with a customer that is a major utility in the United States. Both parties agreed in fiscal 2017 to resolve this dispute through binding arbitration. Arbitration hearings with this customer started in fiscal 2018. Essentially, the customer did not pay the balance of accounts receivable the Company believes were owed for certain disputed projects. As of December 28, 2019, the total amount of recorded receivables from this customer on these disputed projects was $14.1 million. Additionally, as part of the arbitration process, the customer asserted counter-claims of $10.3 million. The arbitrator rendered a decision in this dispute in April 2020, awarding the Company $7.4 million. The counter-claims asserted against the Company of $10.3 million were denied in their entirety. For the twenty-six week period ended June 27, 2020, the Company recorded a charge of $8.4 million, including $6.7 million constituting the portion of the accounts receivable relating to the disputed projects that was not awarded by the arbitrator, $0.7 million from other projects with this customer that were not part of the arbitration, $0.8 million in professional fees related to the dispute and arbitration, and $0.2 million of transit accounts receivable associated with disputed projects that were part of the arbitration. The Company decided to write off the $0.7 million of accounts receivable from other projects not part of the arbitration for business reasons.

The Company utilizes SAP software for its financial reporting and accounting system which was implemented in 1999 and has not undergone significant upgrades since its initial implementation. The Company believes that it will become necessary to upgrade or replace its SAP financial reporting and accounting system. The Company has not determined when this contemplated replacement may be necessary. The Company estimates this upgrade or replacement of their financial reporting and accounting system will cost between $1.0 million and $2.0 million. These estimates are subject to material change.

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

The Company leases office facilities and various equipment under non-cancelable leases expiring at various dates through May 2024. Certain leases are subject to escalation clauses based upon changes in various factors.

Liquidity and Capital Resources (Continued)

Future Contingent Payments

Maturities of lease liabilities are as follows:

Fiscal Year	Operating Leases	Finance Leases
2020	$1,198	$157
2021	1,843	169
2022	1,372	23
2023	910	-
2024	187	-
Thereafter	-	-
Total lease payments	5,510	349
Less: imputed interest	(314)	(6)
Total	$5,196	$343

As of June 27, 2020, the Company had two active acquisition agreements whereby additional contingent consideration may be earned by the former shareholders: 1) effective October 1, 2017, the Company acquired all of the stock of PSR Engineering Solutions d.o.o. Beograd (Voždovac) ("PSR") and 2) effective September 30, 2018 the Company acquired certain assets of Thermal Kinetics Engineering, PLLC and Thermal Kinetics Systems, LLC (together, "TKE"). The Company estimates future contingent payments at June 27, 2020 as follows:

Fiscal Year Ending	Total
January 2, 2021 (after June 27, 2020)	$ -
January 1, 2022	500
December 31, 2022	2,286
Estimated future contingent consideration payments	$2,786

Estimates of future contingent payments are subject to significant judgment and actual payments may materially differ from estimates. Potential future contingent payments to be made to all active acquisitions after June 27, 2020 are capped at a cumulative maximum of $6.3 million. The Company estimates future contingent consideration payments based on forecasted performance and recorded the fair value of those expected payments as of June 27, 2020. During the twenty-six week period ended June 27, 2020, the Company measured the intangibles acquired at fair value on a non-recurring basis. Contingent consideration related to acquisitions are 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 June 27, 2020, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Based on the Company's variable-rate line of credit balances during the twenty-six week period ended June 27, 2020, if the interest rate on the Company's variable-rate line of credit (using an incremental borrowing rate) during the period had been 1.0% higher, the Company's interest expense on an annualized basis would have increased by $0.3 million. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 4. CONTROLS AND PROCEDURES

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

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

As management prepares and executes a virtual financial close process, for the first time, there could be related implications on the internal controls performed specifically in conjunction with the preparation, review, and filing of this report. There is a risk that moving to a virtual environment in response to COVID-19 could result in certain controls (e.g., financial closing and reporting controls) being overridden or performed less frequently, or that management could be designing and implementing new controls in response to new risks. In addition, in instances where relevant controls fail, and there are no compensating controls in place, there may be fewer opportunities to timely identify or remediate control deficiencies. There were otherwise no changes in the Company's internal control over financial reporting during the quarter ended June 27, 2020, that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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 28, 2019. The risk factor set forth below is in addition to the risk factors discussed therein

An epidemic or pandemic, including the ongoing COVID-19 pandemic, and the initiatives to reduce its transmission have adversely affected the Company's business and financial position, and are expected to continue to do so.

Our business has been, and we expect that it will continue to be, adversely impacted by the effects of epidemic outbreaks such as the novel coronavirus (COVID-19) that has been declared a pandemic by the World Health Organization. As COVID-19 continues to present various health, business and other challenges globally, including significant impacts in the United States, we are taking a variety of measures to protect the health and safety of our employees and, especially in the healthcare segment, deploying our resources, including the talents of our employees, to help the communities we serve meet and overcome the current challenges. However, public and private sector policies and initiatives to reduce the transmission of COVID-19, such as closures of schools, businesses and manufacturing facilities, the promotion of social distancing, the adoption of working from home by companies and institutions, and travel restrictions could continue to adversely affect demand for our services and to present challenges to us in delivering these services. The extent to which this coronavirus impacts operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity of this coronavirus and the actions to contain the coronavirus or treat its impact, among others. These impacts on our business could have an adverse effect on our liquidity position and access to capital, including our ability to access our line of credit. The Company can give no assurance that the line of credit will be available in the future.

These factors, in addition to delays in payment (from clients and/or clients in bankruptcy), have resulted in, and could continue to result in, significant additional bad debts in the near future. Additionally, our operating results would be adversely affected if unexpected increases in the costs of labor and labor related costs, materials, supplies and equipment used in performing services (including the impact of potential tariffs and COVID-19) could not be passed on to our client.

In addition, we believe that to improve our financial performance we must continue to obtain service agreements with new clients, retain and provide new services to existing clients, achieve modest price increases on current service agreements with existing clients and/or maintain internal cost reduction strategies at our various operational levels. Furthermore, we believe that our ability to sustain the internal development of managerial personnel is an important factor impacting future operating results and the successful execution of our projected growth strategies.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

3.1	Certificate of Designation of Series A-3 Junior Participating Preferred Stock of RCM Technologies, Inc.; incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2020 (the "May 2020 8-K").
4.1	Rights Agreement, dated as of May 22, 2020, by and between RCM Technologies, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent; incorporated by reference to Exhibit 4.1 to the May 2020 8-K.
10.1	Stock Purchase Agreement, dated as of June 2, 2020, by and among RCM Technologies, Inc., the other Purchasers named therein and the Selling Stockholders named therein; incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 2, 2020 (the "June 2020 8-K").
10.2	9.00% Subordinated Note, dated as of June 2, 2020, made by RCM Technologies, Inc. in favor of IRS Partners No. 19, L.P.; incorporated by reference to Exhibit 10.2 to the June 2020 8-K.
10.3	Subordination Agreement, dated as of June 2, 2020, by and among RCM Technologies, Inc., the subsidiaries of RCM Technologies, Inc. listed on the signature pages thereto, IRS Partners No. 19, L.P. and Citizens Bank, N.A.; incorporated by reference to Exhibit 10.3 to the June 2020 8-K.
10.4	Amendment No. 2 to Third Amended and Restated Loan Agreement, dated as of June 2, 2020, by and among RCM Technologies, Inc., all of the subsidiaries of RCM Technologies, Inc. and Citizens Bank, N.A., a national banking association (as successor by merger to Citizens Bank of Pennsylvania), in its capacities as lender and as administrative agent and arranger; incorporated by reference to Exhibit 10.4 to the June 2020 8-K.
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.)

ITEM 6. EXHIBITS (CONTINUED)

101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Documents
101.DEF*	XBRL Taxonomy Definition Linkbase Document

* Filed herewith

** Furnished herewith

RCM TECHNOLOGIES, INC.

SIGNATURES

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

RCM Technologies, Inc.

Date: August 11, 2020

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

Date: August 11, 2020

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