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

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 1, 2022
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission file number 1-10245

RCM TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.05 per share	RCMT	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

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

Emerging Growth Company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $28.9 million based upon the closing price of $4.00 per share of the registrant’s common stock on July 2, 2021 on The NASDAQ Global Market. For purposes of making this calculation only, the registrant included all directors, executive officers and beneficial owners of more than 5% of the Common Stock of the Company as affiliates.

The number of shares of registrant’s common stock (par value $0.05 per share) outstanding as of April 1, 2022: 10,096,588.

Documents Incorporated by Reference

Portions of the definitive proxy statement for the registrant’s 2022 Annual Meeting of Stockholders (the “2022 Proxy Statement”) are incorporated by reference into Items 10, 11, 12, 13 and 14 in Part III of this Annual Report on Form 10-K. If the 2022 Proxy Statement is not filed by May 2, 2022 (the first business day following the day that is 120 days after the last day of the registrant’s 2021 fiscal year), an amendment to this annual report on Form 10-K setting forth this information will be duly filed with the Securities and Exchange Commission.

RCM TECHNOLOGIES, INC.

FORM 10-K

TABLE OF CONTENTS

PART I

Private Securities Litigation Reform Act Safe Harbor Statement

Certain statements included herein and in other reports and public filings made by RCM Technologies, Inc. ("RCM" or the "Company") are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements regarding the adoption by businesses of new technology solutions; the use by businesses of outsourced solutions, such as those offered by the Company, in connection with such adoption; the Company's strategic and business initiatives and growth strategies; and the outcome of litigation (at both the trial and appellate levels) and arbitrations, or other business disputes, involving the Company. Readers are cautioned that such forward-looking statements, as well as others made by the Company, which may be identified by words such as "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "believe," and similar expressions, are only predictions and are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially from such statements. Such risks and uncertainties include, without limitation: (i) unemployment and general economic conditions affecting the provision of life sciences, information technology and engineering services and solutions and the placement of temporary staffing personnel; (ii) the effects of the COVID-19 pandemic; (iii) the Company's ability to continue to attract, train and retain personnel qualified to meet the requirements of its clients; (iv) the Company's ability to identify appropriate acquisition candidates, complete such acquisitions and successfully integrate acquired businesses; (v) the Company's relationships with and reliance upon significant customers, and ability to collect accounts receivable from such customers; (vi) risks associated with foreign currency fluctuations and changes in exchange rates, particularly with respect to the Canadian dollar; (vii) uncertainties regarding amounts of deferred consideration and earnout payments to become payable to former shareholders of acquired businesses; (viii) the adverse effect a potential decrease in the trading price of the Company's common stock would have upon the Company's ability to acquire businesses through the issuance of its securities; (ix) the Company's ability to obtain financing on satisfactory terms; (x) the reliance of the Company upon the continued service of its executive officers; (xi) the Company's ability to remain competitive in the markets that it serves; (xii) the Company's ability to maintain its unemployment insurance premiums and workers compensation premiums; (xiii) the risk of claims being made against the Company associated with providing temporary staffing services; (xiv) the Company's ability to manage significant amounts of information and periodically expand and upgrade its information processing capabilities; (xv) the risk of cyber attacks on our information technology systems or those of our third party vendors; (xvi) the Company's ability to remain in compliance with federal and state wage and hour laws and regulations; (xvii) uncertainties in predictions as to the future need for the Company's services; (xviii) uncertainties relating to the allocation of costs and expenses to each of the Company's operating segments; (ixx) the costs of conducting and the outcome of litigation, arbitrations and other business disputes involving the Company, and the applicability of insurance coverage with respect to any such litigation; (xx) the results of, and costs relating to, any interactions with shareholders of the Company who may pursue specific initiatives with respect to the Company's governance and strategic direction, including without limitation a contested proxy solicitation initiated by such shareholders, or any similar such interactions; and (xxi) other economic, competitive, health and governmental factors affecting the Company's operations, markets, products and services. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. Except as required by law, the Company undertakes no obligation to publicly release the results of any revision of these forward-looking statements to reflect these trends or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

ITEM 1. BUSINESS

General

RCM Technologies, Inc. is a premier provider of business and technology solutions designed to enhance and maximize the operational performance of its customers. The Company provides these services through the deployment of advanced engineering, specialty health care, life sciences and information technology services. For over 40 years, the Company has developed and assembled an attractive, diverse and extensive portfolio of capabilities, service offerings and delivery options. This combination, paired with RCM's efficient pricing structure, offers clients a compelling value proposition.

RCM consists of three operating segments: Engineering, Specialty Health Care and Life Sciences and Information Technology Services.

- The Engineering segment provides a comprehensive portfolio of engineering and design services across three verticals: (1) Energy Services, (2) Process & Industrial and (3) Aerospace. The segment also offers a complementary suite of services to augment its engineering portfolio, including design and supply of high-quality engineered process solutions and equipment, technical writing and digital documentation across marine, locomotive, transportation and aerospace markets, and engineering, procurement and construction management ("EPC"), as well as demand side management/energy conservation services.
- The Specialty Health Care segment provides staffing solutions of health care professionals, primarily health information management professionals, nurses, paraprofessionals, physicians and various therapists. The segment also provides Teletherapy services targeting the education sector with an emphasis on behavioral health.
- The Life Sciences and Information Technology, or LS&IT, segment provides enterprise business solutions, application services, infrastructure solutions, life sciences solutions and other vertical-specific offerings.

The Company services some of the largest national and international companies in North America as well as a lengthy roster of Fortune 1000 and mid-sized businesses in such industries as Aerospace/Defense, Educational Institutions, Energy, Financial Services, Health Care, Life Sciences, Manufacturing & Distribution, the Public Sector and Technology. RCM sells and delivers its services through a network of approximately 25 offices in selected regions throughout North America and Serbia.

During the fiscal year ended January 1, 2022, approximately 32.5% of RCM's total revenues were derived from Engineering services, 48.3% from Specialty Health Care services, and the remaining 19.2% from IT services.

Impact of COVID-19

As discussed in more detail below under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Form 10-K, the COVID-19 pandemic has had a substantial impact on our business, particularly in our Specialty Health Care segment, where it impacted the schools where many of the Company's personnel work.

Industry Overview

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

Industry Overview (Continued)

The Company's Engineering group remains focused on areas of growth, primarily within the electric power, aerospace, marine and transportation, commercial and industrial, oil and gas, as well as biofuel industries. Given the current composition of its customer base, the Engineering group's performance is well balanced between its three segments. In recent years, many electric utilities have prioritized transitioning their power generation assets to cleaner sources of energy. Much of this transformation is being driven by investments in renewable energy. The Energy Information Administration ("EIA") estimates that 38% of the United States' electric generation capacity will be comprised of wind and solar assets by 2050. This expansion will require extensive investment in the nation's transmission infrastructure to interconnect these renewable resources to the energy grid. Projects of this scale will require engineering and design expertise, as well as the utilization of EPC services. As the world's industrial output rebounds from pandemic-related weakness in 2020 and 2021, the Company believes its Process and Industrial group is positioned well to take advantage. Companies in the chemical industry are reprioritizing spending towards decarbonization technologies, with many US chemical companies expecting to place an emphasis on renewable feedstocks and new carbon recycling technologies. The Company believes its process engineering services can play a vital role across this multibillion-dollar opportunity.

In the health care services industry, a shortage of nurses and other medical personnel in the United States has led to increases in business activity for health care service companies, including the Company's Specialty Health Care group. Due in part to an aging population and improved medical technology, the demand for selected health care professionals is expected to continue over the next several years, with an emphasis on leveraging technology to expand access to care. The increased adoption of telemedicine, an area in which the Specialty Health Care group has developed new service offerings, is a primary example. In addition, public educational institutions are outsourcing their requirements for school nurses, therapists and paraprofessionals to lower their costs and it is expected that this will continue and grow. Each of these dynamics have been exacerbated by COVID-19. The pandemic has also altered patterns in health care delivery, with newer delivery models gaining traction, namely telemedicine. Given federal and state regulatory changes as well as private insurer reimbursement methods, utilization of telemedicine services increased significantly. As the COVID-19 pandemic continues, CDC researchers stated that maintaining the expansion of telehealth remains critical to providing access to care. It is expected the total addressable market opportunity will continue to expand and grow. Expanding access to behavioral health and mental well-being is also a priority for public health officials. Increasing and maintaining access to proper care remains a top priority and the market opportunity for these services is expected to continue to grow.

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

The Company believes its target market for IT services is among middle-market companies, which typically lack the time and technical resources to satisfy all of their IT needs internally. These companies commonly require sophisticated, experienced IT assistance to achieve their business objectives and often rely on IT service providers to help implement and manage their systems. RCM is structured to provide middle-market companies a single source for their IT needs.

Business Strategy

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

Growth Strategy

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

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

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

Achieve Internal Growth
The Company continues to promote its internal growth strategies which it designed to better serve the Company's customers, generate higher revenue and achieve greater operating efficiencies. Every division of the Company continuously focuses on services and client diversification. Business units are collaborating on penetrating and servicing accounts as sales teams are increasing their activity levels. This enables clients to be supported by specialists in their areas of need while RCM productivity increases.

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

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

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

Growth Strategy (Continued)

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

Operating Strategy

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

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

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

Engineering

RCM provides a full range of Engineering services including Project Management Engineering & Design, Engineering Analysis, Engineer-Procure-Construct, Configuration Management, Hardware/Software Validation & Verification, Quality Assurance, Technical Writing & Publications, Manufacturing Process Planning & Improvement and 3D/BIM Integrated Design. Engineering services are provided at the site of the client or at the Company's own facilities.

The Company's Engineering segment consists of three business units – Energy Services, Aerospace Services and Process & Industrial Services.

- **Energy Services**: Provides solutions to the utility industry, including power generation and transmission and distribution. The group has project experience that encompasses multi-disciplined engineering and design services as well as providing technical support during design, construction and plant operational phases. The Company believes that the deregulation of the utilities industry and the aging of nuclear power plants offer the Company an opportunity to capture a greater share of professional services and project management requirements of the utilities industry. Electric utilities have prioritized transitioning their power generation assets to cleaner sources of energy. This expansion requires large-scale investment in the nation's transmission infrastructure to interconnect these renewable resources to the energy grid.
- **Aerospace Services**: Provides engineering and technical services to the aerospace & defense industry. According to the Congressional Budget Office ("CBO"), the Department of Defense plans to spend over $1 trillion in procurement-related aviation expenditures over the next three decades. Given RCM's customer account relationships with several of the largest defense prime contractors, the Company believes there is ample opportunity for engineering services and technical publication work, including production and procurement engineering services as well as the need for sustainment and development program publication services.
- **Process & Industrial Services**: Provides engineering services to the industrial, chemical, commercial and oil and gas industries in the United States, Europe and Canada. As the world's industrial output rebounds from pandemic-related weakness in 2020 and 2021, the Company believes it is positioned well to take advantage. With many companies in the chemical industry reprioritizing spending towards decarbonization technologies, many US chemical companies are expected to place an emphasis on renewable feedstocks and new carbon recycling technologies. The Company believes its process engineering services can play a vital role across this multibillion-dollar opportunity.

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

As of January 1, 2022, the Company assigned approximately 440 engineering and technical personnel to its customers.

Specialty Health Care

The Company's Specialty Health Care Group specializes in long-term and short-term staffing as well as executive search and placement solutions for many of the largest healthcare institutions and school districts across the United States. The segment's portfolio of services includes, but is not limited to, the following fields:

- **Allied and Therapy Staffing**: Specializes in recruiting outstanding professionals across the health care industry. Our allied health care professionals and therapists work in schools, health systems, hospitals, nursing homes, and rehabilitation facilities.
- **Correctional Healthcare Staffing**: Staffing services for local, state and federal correctional facilities and provide screening, onboarding, and employee assessments as well as employee and inmate vaccination and treatment services.
- **Health Information Management**: Provide healthcare organizations with experienced medical coding professionals that manage staffing shortages, backlogs, vacation coverage and long-term coding support.
- **Nursing Services**: Provides nurse placement and staffing services in healthcare facilities, schools, hospitals and correctional facilities.
- **Physicians and Advanced Practice**: Our national locum tenens (temporary practitioner) practice specializes in placing physicians, physician assistants and nurse practitioners.
- **School Services**: Provides full-time and part-time nurse employment services for school districts across the country. The Company also offers other health care professionals to perform school evaluations and treat students, including occupational and physical therapists, speech and language pathologists, as well as special education support services and registered behavioral technicians to support students' individualized education plan and behavioral health needs.
- **Telepractice**: RCM's teletherapy solution is an evidence-based service delivery option for students to receive Special Education services such as Speech-Language Therapy, Occupational Therapy, Physical Therapy, Behavioral and Mental Health services and other healthcare services through an online platform.

As the COVID-19 pandemic has demonstrated, maintaining the utilization of telemedicine remains critical to providing necessary access to care. Expanding access to behavioral health and mental wellness services is also a priority for many public health officials. The Company's School Services and Telepractice offerings are well positioned to provide solutions in these areas of priority as the market opportunity for these services is expected to continue to grow.

As of January 1, 2022, the Company assigned approximately 2,950 specialty health care services personnel to its customers.

Life Sciences and Information Technology

The Company's Life Sciences and Information Technology segment is an integrated group of business units providing staff supplementation services and project solutions with physical locations in the United States, Canada and Puerto Rico primarily supporting Financial, Technical, Manufacturing, Life Sciences and Distribution applications. Specialization in project solutions include, but are not limited to, the following areas:

- **Life Sciences**: Specializes in providing innovative options to pharmaceutical, medical device and biotechnology companies in need of guidance, support or remediation of quality, compliance or business challenges. The group assists in staffing, solution planning and remediation needs in the areas of automation, compliance, data analytics, technical quality assurance and management, and validation and verification.
- **IT Services & Solutions**: Global provider of business and technology solutions designed to improve the operational performance of our clients. Specialties include software development, infrastructure services, and managed IT solutions. The Company has a 40-year history of providing qualified IT candidates to customers in a timely and cost-effective manner to address their specific business needs. The Company offers scalable solutions that can provide emerging growth companies with a single qualified resource or an entire project team along with RCM's project management oversight to Fortune 100 clients.

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

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

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

As of January 1, 2022, the Company assigned approximately 240 life sciences and information technology personnel to its customers.

Branch Offices

The Company's organization consists of 25 branch offices located in the United States, Canada, Puerto Rico and Serbia. The locations and services of each of the branch offices are set forth in the table below.

LOCATION	NUMBER OF OFFICES	SERVICES PROVIDED(1)
UNITED STATES		
California	2	HC
Connecticut	1	E
Florida	1	HC
Hawaii	1	HC
Illinois	1	HC
Maryland	1	IT
Massachusetts	1	IT
Michigan	1	HC
New Jersey	3	E, IT
New York	4	E, HC, IT
Pennsylvania	1	E
Rhode Island	1	E
Tennessee	1	HC
	19	
CANADA	2	E
PUERTO RICO	1	E, IT
SERBIA	3	E, IT

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

The Company is domiciled in the United States and its segments operate in the United States, Canada, Puerto Rico and Serbia.

International Operations

The Company operates its business in Canada and, to a less significant extent, in Puerto Rico and Serbia. For the fiscal year ended January 1, 2022, approximately 8.7% of the Company's revenues were generated outside the United States. There are certain risks inherent in conducting business internationally including: the imposition of trade barriers, foreign exchange restrictions, longer payment cycles, greater difficulties in accounts receivables collection, difficulties in complying with a variety of foreign laws (including without limitation the U.S. Foreign Corrupt Practices Act), changes in legal or regulatory requirements, difficulties in staffing and managing foreign operations, complex and uncertain employment environments, political instability and potentially adverse tax consequences. Our operations in Serbia could be adversely affected by the current conflict between Ukraine and Russia, with which Serbia has substantial ties. Should sanctions against Russia affect Russia in a way that causes adverse economic consequences to Serbia, or if such sanctions were to be extended to countries that might be considered to be in alignment with Russia, thus could have a negative impact on our employees or operations both within and outside Serbia. To the extent the Company experiences these risks, the business and results of operations could be adversely affected.

International Operations (Continued)

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

Branch offices are primarily located in markets that the Company believes have strong growth prospects for the Company's services. The Company's branches are operated in a decentralized, entrepreneurial manner with most offices operating as independent profit centers.

Sales and Marketing

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

The Company serves Fortune 1000 companies and many middle market clients. The Company's relationships with these customers are typically formed at the customers' local or regional level and from time to time, when appropriate, at the corporate level for national accounts.

Key Customers

The Company has established long-term relationships with many of its customers across each of its business segments. RCM's emphasis on client retention has resulted in repeat business from many of its largest strategic accounts. During the fiscal year ended January 1, 2022, no client accounted for 10% or more of total revenues. The Company's five, ten and twenty largest customers accounted for approximately 35.8%, 52.5% and 65.1%, respectively, of the Company's revenues for the fiscal year ended January 1, 2022.

Other Information

Safeguards - Business, Disaster and Contingency Planning

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

Given the significant amount of data generated in the Company's key processes including recruiting, sales, payroll and customer invoicing, RCM has established redundant procedures, functioning on a daily basis, within the Company's primary data center, which is a third-party Internet Data Center ("IDC"). This redundancy should mitigate the risks related to hardware, application and data loss by utilizing the concept of live differential backups of servers and desktops to Storage Area Network (SAN) devices on its backup LAN, culminating in offsite tape storage at an independent facility. Controls within the data center environment ensure that all systems are proactively monitored and data is properly archived.

Additionally, RCM has contracted and brokered strategic relationships with third-party vendors to meet its recovery objectives in the event of a system disruption. For example, comprehensive service level agreements for RCM's data circuits and network devices guarantee minimal outages as well as network redundancy and scalability.

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

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

The IDC provides RCM with a robust data center environment with redundant HVAC, commercial power feeds, ten 2000kW diesel generator sets with five 10,000-gallon, above-ground fuel oil storage tanks to provide standby power and dry pipe fire suppression. In addition, the IDC provides 24x7 security staffing, closed-circuit monitors, secure-card key access, biometrics scanners, man traps, and alarmed doors.

Competition

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

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

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

Seasonality

The Company's operating results can be affected by the seasonal fluctuations in client expenditures. Expenditures in the Engineering, Life Sciences and Information Technology segments can be negatively impacted during the first quarter of the year when clients are finalizing their budgets. Quarterly results generally fluctuate depending on, among other things, the number of billing days in a quarter and the seasonality of clients' businesses. The business is also affected by the timing of holidays and seasonal vacation patterns, generally resulting in lower revenues and gross profit in the fourth quarter of each year, not considering any non-seasonal impact. Extreme weather conditions may also affect demand in the first and fourth quarters of the year as certain clients' facilities are located in geographic areas subject to closure or reduced hours due to inclement weather. The Company generally experiences an increase in its cost of sales and a corresponding decrease in gross profit and gross margin percentage in the first and second fiscal quarters of each year as a result of resetting certain state and federal employment tax rates and related salary limitations. Also, the Company's Specialty Health Care segment typically experiences a significant decline in revenues due to the substantial closure of one of its largest customers, the New York City Department of Education, and other educational institution clients during the third quarter due to their summer recess.

Government Regulations

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

Intellectual Property

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

Workforce

As of January 1, 2022, the Company employed an administrative, sales, recruiting and management staff of approximately 250 people, including licensed engineers and certified IT specialists who, from time to time, participate in engineering design and IT projects undertaken by the Company. As of January 1, 2022, there were approximately 440 engineering and technical personnel, 2,950 specialty health care services personnel and 240 life sciences and information technology personnel assigned by the Company to work on client projects or assignments for various periods. None of the Company's employees are party to a collective bargaining agreement.

Access to Company Information

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

RCM electronically files its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports with the Securities and Exchange Commission ("SEC"). The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxies, information statements, and other information regarding issuers that file electronically.

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

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

ITEM 1A. RISK FACTORS

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

Economic Trends

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

Global Epidemics

The ongoing COVID-19 pandemic, and associated initiatives to reduce its spread, have adversely affected the Company's business and financial position, and may continue to do so. The impacts described in this risk factor as relating to COVID-19 could arise in the future with respect to any other global pandemics that may occur.

Our business has been, and may continue to be, adversely impacted by the effects of the COVID-19 pandemic. 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 COVID-19 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 the pandemic and the actions to contain COVID-19 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 clients.

In addition, we believe that to maintain or 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. Certainly, the ongoing COVID-19 pandemic makes these objective more difficult to attain.

Government Regulations

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

Highly Competitive Business

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

Seasonality of Business

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

Events Affecting Significant Customers

As disclosed in "Item 1. Business," the Company's five, ten and twenty largest customers accounted for approximately 35.8%, 52.5% and 65.1%, respectively, of revenues for the fiscal year ended January 1, 2022. During the fiscal year ended January 1, 2022, no client accounted for 10% or more of total revenues. The Company's customers may be affected by the current state of the economy or developments in the credit markets or may engage in mergers or similar transactions. In addition, customers may choose to reduce the business they do with RCM for other reasons or no reason. The Company could also be materially impacted by actions of prime contractors whereby the Company derives revenues through a subcontractor relationship. Should any significant customers experience a downturn in their business that weakens their financial condition or merge with another company or otherwise cease independent operation, or limit their relationship with us, it is possible that the business that the customer does with the Company would be reduced or eliminated, which could adversely affect the Company's business, financial condition and results of operations.

Safety Concerns Regarding Nuclear Power Plants; Limitations on Insurance

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

In addition, our liability insurance does not cover accidents occurring at nuclear power facilities. Should we be found to be responsible for such an event, we may not be able to cover relating damages, and our business would be adversely affected.

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

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

Dependence Upon Personnel

The Company's operations depend on the continued efforts of its officers and other executive management. The loss of key officers and members of executive management may cause a significant disruption to the Company's business.

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

Revolving Credit Facility and Liquidity

If the Company were unable to borrow under its Revolving Credit Facility (see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financing Activities"), it may adversely affect liquidity, results of operations and financial condition. The Company's liquidity depends on its ability to generate sufficient cash flows from operations and, from time to time, borrowings under the Revolving Credit Facility with the Company's agent lender Citizens Bank of Pennsylvania. The Company believes that Citizens Bank is liquid and is not aware of any current risk that they will become illiquid. At January 1, 2022, the Company had $14.2 million in borrowings under the Revolving Credit Facility outstanding and $1.9 million outstanding under letters of credit, with availability for additional borrowings under the Revolving Credit Facility of $28.9 million.

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. At the option of Citizens Bank, LIBOR can be replaced with SOFR (Secured Overnight Financing Rate). The LIBOR alternative is being phased out in 2022. Citizens Bank has not indicated when this switch will occur, but in any event, the Company does not believe there will be any material impact on its borrowing rate.

The Revolving Credit Facility contains various financial and non-financial covenants. At January 1, 2022, the Company was in compliance with the covenants and other provisions of the Credit Facility. Any failure to be in compliance could have a material adverse effect on liquidity, results of operations and financial condition.

Foreign Currency Fluctuations and Changes in Exchange Rates

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

Changes in Tax Laws

At any time, United States federal tax laws or the administrative interpretations of those laws may be changed. As a result, changes in United States federal tax laws could negatively impact our operating results, financial condition and business operations, and adversely impact the Company's shareholders. At any time, tax laws in the Company's other jurisdictions, Canada, Puerto Rico and Serbia, may also change. These tax law changes may have a material impact on the Company's income tax expense.

Workers' Compensation and Employee Medical Insurance

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

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

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

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

Acquisitions May Not Succeed

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

International Operations

The Company operates its business in Canada and, to a less significant extent, in Puerto Rico and Serbia. For the fiscal year ended January 1, 2022, approximately 8.7% of the Company's revenues were generated outside the United States. There are certain risks inherent in conducting business internationally including: the imposition of trade barriers, foreign exchange restrictions, longer payment cycles, greater difficulties in accounts receivables collection, difficulties in complying with a variety of foreign laws (including without limitation the U.S. Foreign Corrupt Practices Act), changes in legal or regulatory requirements, difficulties in staffing and managing foreign operations, complex and uncertain employment environments, political instability and potentially adverse tax consequences. Our operations in Serbia could be adversely affected by the current conflict between Ukraine and Russia, with which Serbia has substantial ties. Should sanctions against Russia affect Russia in a way that causes adverse economic consequences to Serbia, or if such sanctions were to be extended to countries that might be considered to be in alignment with Russia, this could have a negative impact on our employees or operations both within and outside Serbia. To the extent the Company experiences these risks, the business and results of operations could be adversely affected.

Trademarks

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

Data Center Capacity and Telecommunication Links

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

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

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

Cyber Security

We are highly dependent on information technology systems to operate our business. A breakdown, invasion, corruption, destruction or interruption of critical information technology systems by employees, others with authorized access to our systems or unauthorized persons could negatively impact operations. In the ordinary course of business, we collect, store and transmit confidential information and it is critical that we do so in a secure manner to maintain the confidentiality and integrity of such information. Additionally, we outsource certain elements of our information technology systems to third parties. As a result of this outsourcing, our third party vendors may or could have access to our confidential information making such systems vulnerable. Data breaches of our information technology systems, or those of our third party vendors, may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. While we believe that we have taken appropriate security measures to protect our data and information technology systems, and have been informed by our third party vendors that they have as well, there can be no assurance that our efforts will prevent breakdowns or breaches in our systems, or those of our third party vendors, that could adversely affect our business.

Data Privacy

We control, process, or have access to personal information regarding our own employees or employment candidates, as well as that of many of our customers or other third parties. Information concerning these individuals may also reside in systems controlled by third party vendors with whom we do business. The legal and regulatory environment concerning data privacy is becoming more complex and challenging, and the potential consequences of non-compliance have become more severe. The European Union's General Data Protection Regulation, the California Consumer Privacy Act, the Health Insurance Portability and Accountability Act of 1996 and similar laws impose additional compliance requirements related to the collection, use, processing, transfer, disclosure, and retention of personal information, which can increase operating costs and resources to accomplish. Any failure to abide by these regulations or to protect such personal information from inappropriate access or disclosure, whether through social engineering or by accident or other cause, could have severe consequences including fines, litigation, regulatory sanctions, reputational damage, and loss of customers or employees. There can be no assurance that the steps we take to abide by applicable requirements and protect information will meet all current and future regulatory requirements, anticipate all potential methods of unauthorized access, or prevent all inappropriate disclosures. Any failures to do so could result in governmental enforcement actions, fines, and other penalties, or other liabilities, that could adversely affect our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company provides specialty professional consulting services, principally performed at various client locations, through 25 administrative and sales offices located in the United States, Puerto Rico, Canada and Serbia. The majority of the Company's offices typically consist of 1,000 to 13,000 square feet and are typically leased by the Company for terms of one to five years. Offices in larger or smaller markets may vary in size from the typical office. The Company does not expect that it will be difficult to maintain or find suitable lease space at reasonable rates in its markets or in areas where the Company contemplates expansion.

The Company's executive office is located at 2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613. These premises consist of approximately 3,500 square feet and are leased at a rate of approximately $15.00 per square foot per annum for a term ending on November 30, 2025.

The Company's operational office is located at 20 Waterview Boulevard, 4th Floor, Parsippany, NJ 07054-1271. These premises consist of approximately 9,200 square feet and are leased at a rate of approximately $24.95 per square foot per annum for a term ending on January 31, 2024.

ITEM 3. LEGAL PROCEEDINGS

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

As such, the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of losses and possible recoveries. The Company may not be covered by insurance as it pertains to some or all of these matters. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. The Company records a liability when management believes an adverse outcome from a loss contingency is both probable and the amount, or a range, can be reasonably estimated. From time to time, the Company must estimate the potential loss even though the party adverse to the Company has not asserted any specific amounts. Significant judgment is required to determine both probability of loss and the estimated amount. The Company reviews its loss contingencies at least quarterly and adjusts its accruals and/or disclosures to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, or other new information, as deemed necessary. Once established, a provision may change in the future due to new developments or changes in circumstances and could increase or decrease the Company's earnings in the period that the changes are made.

The Company is exposed to various asserted claims as of January 1, 2022, where the Company believes it has a probability of loss. Additionally, the Company is exposed to other asserted claims whereby an amount of loss has not been declared, and the Company cannot determine the potential loss. Any of these various claims could result in an unfavorable outcome or settlement that exceeds the accrued amounts. However, the Company believes that such matters will not, either individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. As of January 1, 2022, the Company has accrued $2.9 million for asserted claims. Included in the January 1, 2022 accrual of $2.9 million, the Company has reserved $1.6 million for the settlement of a class-action suit in California that alleges the Company did not properly pay its travel nurses overtime wages. While the Company believes it did not violate any overtime wage laws, it decided to settle this class action lawsuit in December 2020. The Company paid the $1.6 million settlement in early January 2022.

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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Shares of the Company's common stock are traded on The NASDAQ Global Market under the Symbol "RCMT."

Holders

As of February 11, 2022, the approximate number of holders of record of the Company's Common Stock was 280 and the number of beneficial owners of its Common Stock was approximately 5,110.

Dividends

No dividends were declared in fiscal 2020 or fiscal 2021. All restricted share awards contain a dividend equivalent provision entitling holders to dividends paid between the restricted stock unit grant date and ultimate share distribution date. As of January 1, 2022, there were no accrued dividends.

While the Company, at this time, has no plans to issue any future dividends, any future payment of dividends will depend upon, among other things, the Company's earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions, and other factors that the Board of Directors deems relevant. The Revolving Credit Facility (as discussed in Item 7 hereof) prohibits the payment of any dividends or distributions on account of the Company's capital stock without the prior consent of the majority of the Company's lenders.

Stock Repurchase by Issuer

On January 13, 2021, the Company's Board of Directors authorized a program to repurchase shares of the Company's common stock constituting, in the aggregate, up to an amount not to exceed $7.5 million. On November 12, 2021, the Company's Board of Directors further increased the total amount available to repurchase shares up to an amount not to exceed $19.1 million (including the initial $7.5 million authorized), consistent with the maximum limitation set forth by the Company's revolving line of credit. The program is designed to provide the Company with enhanced flexibility over the long term to optimize its capital structure. Shares of the common stock may be repurchased in the open market or through negotiated transactions. All of the repurchases were conducted under the safe harbor from liability under certain market manipulation rules provided by Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The program may be terminated or suspended at any time at the discretion of the Company.

The following table provides information relating to the shares we purchased during the fourth quarter of the fiscal year ended January 1, 2022:

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
October 3, 2021 – October 31, 2021	260,577	$5.89	260,577	$13,465,000
November 1, 2021 – November 30, 2021	273,005	$6.54	533,582	$11,679,000
December 1, 2021 – January 1, 2022	239,610	$6.57	773,192	$10,104,000
Total	773,192	$6.33	773,192	$10,104,000

ITEM 6. RESERVED

ITEM 7. 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 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. While our revenue, gross profit and operating income were negatively impacted in fiscal 2020 on a consolidated basis and in fiscal 2021 for certain business lines, we have maintained the consistency of our operations, to a substantial degree, from 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. Any material changes to labor rates for the Company's workforce may have a material negative impact to revenue, gross profit and operating income.

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-K. 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.

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

Overview

RCM participates in a market that is cyclical in nature and sensitive to economic changes. As a result, the impact of economic changes on 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 or reduced most of our office locations, with much of our workforce working from home, and have seen a reduction in customer demand to certain business lines. The duration and ultimate magnitude of the disruption remains uncertain. Therefore, we experienced a negative impact on a consolidated basis during fiscal 2020 and to certain business lines during fiscal 2021, and this matter may continue to negatively impact our business, results of operations, and financial position throughout fiscal 2022 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 life sciences, information technology and engineering solutions to upgrade their systems, applications and processes so that they can maximize their productivity and optimize their performance in order to maintain a competitive advantage. Although working under budgetary, personnel and expertise constraints, companies are driven to support increasingly complex systems, applications and processes of significant strategic value. This has given rise to a demand for outsourcing. The Company believes that its current and prospective clients are continuing to evaluate the potential for outsourcing business critical systems, applications and processes.

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

Overview (Continued)

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

Costs of services consist primarily of salaries and compensation-related expenses for billable consultants 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 consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. In our consolidated financial statements, estimates are used for, but not limited to, accounts receivable and allowance for doubtful accounts, goodwill, long-lived intangible assets, accounting for stock options and restricted stock awards, insurance liabilities, accounting for income taxes and accrued bonuses.

Revenue Recognition

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

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

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

Revenue Recognition (Continued)

The following table presents our revenues disaggregated by revenue source for the fifty-two week period ended January 1, 2022 and fifty-three week period ended January 2, 2021:

	January 1, 2022	January 2, 2021
Engineering:		
Time and Material	$45,035	$43,359
Fixed Fee	21,070	14,145
Permanent Placement Services	67	211
Total Engineering	$66,172	$57,715
Specialty Health Care:		
Time and Material	$97,363	$59,692
Permanent Placement Services	1,132	789
Total Specialty Health Care	$98,495	$60,481
Life Sciences and Information Technology:		
Time and Material	$38,571	$31,723
Permanent Placement Services	637	490
Total Life Sciences and Information Technology	$39,208	$32,213
	$203,875	$150,409

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. From time-to-time, amounts paid in excess of revenue earned and recognized are recorded as deferred revenue, included in accounts payable and accrued expenses on the accompanying consolidated balance sheets. Additionally, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when earned. Some contracts also limit revenue and billings to specified maximum amounts. Provisions for contract losses, if any, are made in the period such losses are determined. For contracts where there is a specific deliverable and the work is not complete and the revenue is not recognized, the costs incurred are deferred as a prepaid asset. The associated costs are expensed when the related revenue is recognized.

Revenue Recognition (Continued)

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

There was $3.4 million of deferred revenue as of January 1, 2022. Deferred revenue was $0.4 million as of January 2, 2021. 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. In each of the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021, the Company recognized revenue of $0.4 million, that was included in deferred revenue at the beginning of the reporting period.

Accounts Receivable and Allowance for Doubtful Accounts

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

Goodwill

Goodwill is not amortized but is subject to periodic testing for impairment in accordance with ASC Topic 350 "*Intangibles - Goodwill and Other - Testing Indefinite-Lived Intangible Assets for Impairment"* ("ASC Topic 350"). The Company tests goodwill for impairment on an annual basis as of the last day of the Company's fiscal December each year or more frequently if events occur or circumstances change indicating that the fair value of the goodwill may be below its carrying amount. The Company has three reporting units. The Company uses a market-based approach to determine the fair value of the reporting units. This approach uses earnings/revenue multiples of similar companies recently completing acquisitions and the ability of our reporting units to generate cash flows as measures of fair value of our reporting units. The Company adopted Accounting Standards Update ("ASU") 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" effective December 29, 2018 which has eliminated Step 2 from the goodwill impairment test. Under this update, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount.

There was no goodwill impairment in fiscal 2021 or 2020. During all periods presented, the Company determined that the existing qualitative factors did not suggest that an impairment of goodwill exists. There can be no assurance that future indicators of impairment and tests of goodwill impairment will not result in impairment charges for both its Engineering and Specialty Healthcare segments.

Long-Lived and Intangible Assets

The Company evaluates long-lived assets and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When 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.

Accounting for Restricted Stock Awards

The Company uses restricted stock awards to attract, retain and reward employees for long-term service. The Company follows Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) Topic 718 "Compensation – Stock Compensation" which requires that the compensation cost relating to stock-based payment transactions be recognized in the financial statements. This compensation cost is measured based on the fair value of the equity or liability instruments issued. The Company measures stock-based compensation cost using the Black-Scholes option pricing model for stock options and the fair value of the underlying common stock at the date of grant for restricted stock awards.

Insurance Liabilities

The Company has risk participation arrangements with respect to workers compensation and health care insurance. The Company establishes loss provisions based on historical experience and in the case of expected losses from workers compensation, considers input from third parties. The amounts included in the Company's costs related to this risk participation are estimated and can vary based on changes in assumptions, the Company's claims experience or the providers included in the associated insurance programs.

Accounting for Income Taxes

In establishing the provision for income taxes and deferred income tax assets and liabilities and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance and estimates of future earnings. As of January 1, 2022, the Company had both domestic and foreign net deferred tax assets of $0.4 million. The domestic long term net deferred tax assets of $0.5 million includes $3.4 million in deferred assets offset by $2.9 million in deferred tax liabilities. The domestic deferred tax assets consist of a net operating loss carryforward of $1.2 million, lease liabilities of $0.8 million and various deferred expense accruals and reserves of $0.8 million. The deferred tax liabilities consist of acquisition amortization of $1.4 million, prepaid expenses of $0.6 million and advance depreciation deductions of $0.4 million. The realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. If actual results differ from these estimates and assessments, valuation allowances may be required. The Company also had $0.1 million in foreign net deferred tax liabilities as of January 1, 2022.

The Company conducts its operations in multiple tax jurisdictions in the United States, Canada, Puerto Rico and Serbia. The Company and its subsidiaries file a consolidated United States Federal income tax return and file in various states. The Company's federal income tax returns have been examined through 2017. The Company has no open Federal audits as of January 1, 2022. Except for limited exceptions, the Company is no longer subject to audits by state and local tax authorities for tax years prior to 2018. The Company is no longer subject to audit in Canada for the tax years prior to tax year 2017. The Company is no longer subject to audit in Puerto Rico for the tax years prior to tax year 2011.

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

Accrued Bonuses

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

Performance-Based Restricted Stock Awards

From time-to-time the Company issues performance-based restricted stock awards to its executives. Performance-based restricted stock awards are typically vested based on certain multi-year performance metrics as determined by the Board of Directors Compensation Committee. The 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 awards deemed as likely to vest are deemed as unlikely to vest, the expense recognized will be reversed. These performance-based restricted stock awards typically include dividend accrual equivalents, which means that any dividends paid by the Company during the vesting period become due and payable after the vesting period on any stock awards that actually vest, if any. Dividends for these grants are accrued on the dividend payment dates and included in accounts payable and accrued expenses on the accompanying consolidated balance sheet. Dividends for performance-based restricted stock awards that ultimately do not vest are forfeited.

Forward-looking Information

The Company's growth prospects are influenced by broad economic trends. The pace of customer capital spending programs, new product launches and similar activities have a direct impact on the need for engineering, life sciences and information technology services. When the U.S., Canadian or global economies decline, the Company's operating performance could be adversely impacted. In addition, global events such as the ongoing COVID-19 pandemic also have a substantial impact on our operations and financial results. The Company believes that its fiscal discipline, strategic focus on targeted vertical markets and diversification of service offerings provides some insulation from adverse trends. However, general economic declines could result in the need for future cost reductions or changes in strategy.

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

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

Fiscal Year Ended January 1, 2022 Compared to Fiscal Year Ended January 2, 2021

A summary of operating results for the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021 is as follows (in thousands):

	Fiscal Years Ended			
	January 1, 2022		January 2, 2021	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	$203,875	100.0	$150,409	100.0
Cost of services	150,751	73.9	111,554	74.2
Gross profit	53,124	26.1	38,855	25.8
Selling, general and administrative	42,019	20.6	37,791	25.1
Depreciation and amortization of property and equipment	1,007	0.5	1,065	0.7
Amortization of acquired intangible assets	95	0.1	321	0.2
Write-off of receivables and professional fees incurred related to arbitration	-	-	8,397	5.6
Impairment of right of use assets and related costs	-	-	2,231	1.5
Gain on sale of assets	(2,420)	(1.2)	-	-
Remeasurement of acquisition-related contingent consideration	(1,713)	(0.8)	-	-
Operating costs and expenses	38,988	19.2	49,805	33.1
Operating income (loss)	14,136	6.9	(10,950)	(7.3)
Other expense, net	222	0.1	1,107	0.7
Income (loss) before income taxes	13,914	6.8	(12,057)	(8.0)
Income tax expense (benefit)	2,925	1.4	(3,188)	(2.1)
Net income (loss)	$10,989	5.4	($8,869)	(5.9)

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal years ended January 1, 2022 (fiscal 2021) and January 2, 2021 (fiscal 2020) consisted of fifty-two weeks and fifty-three weeks, respectively.

Revenue. Revenue increased 35.5%, or $53.5 million, for the fifty-two week period ended January 1, 2022 as compared to the fifty-three week period ended January 2, 2021 (the "comparable prior year period"). Revenue increased $8.5 million in the Engineering segment, $38.0 million in the Specialty Health Care segment and $7.0 million in the Life Sciences and Information Technology segment. See Segment Discussion for further information on revenue changes.

Cost of Services and Gross Profit. Cost of services increased 35.1%, or $39.2 million, for the fifty-two week period ended January 1, 2022 as compared to the comparable prior year period. Cost of services increased primarily due to the increase in revenue. Cost of services as a percentage of revenue for the fifty-two week period ended January 1, 2022 and the comparable prior year period were 73.9% and 74.2%, respectively. See Segment Discussion for further information regarding changes in cost of services and gross profit.

Fiscal Year Ended January 1, 2022 Compared to Fiscal Year Ended January 2, 2021 (Continued)

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses were $42.0 million for the fifty-two week period ended January 1, 2022 as compared to $37.8 million for the comparable prior year period. As a percentage of revenue, SGA expenses were 20.6% for the fifty-two week period ended January 1, 2022 and 25.1% for the comparable prior year period. See Segment Discussion for further information on SGA expense changes.

Write-off of receivables related to arbitration. The Company recorded a charge of $8.4 million during the comparable prior year period 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. For the fifty-two week period ended January 1, 2022, there was no such charge. See discussion of Contingencies in Note 16 to the Condensed Consolidated Financial Statements included in this report.

Impairment of Office Leases. During fiscal 2020, in connection with the continuing developments from COVID-19, the Company reduced its leased office space as a result of its employees moving to a remote work environment. The Company does not believe there is an opportunity to sublet any of the vacant office space due to the current commercial rental marketplace. This decision and reduction in the use of the office spaces resulted in a right-of-use asset impairment of $1.9 million in fiscal 2020. This loss was determined by identifying the fair value of the impacted right-of-use assets as compared to the carrying value of the assets as of the measurement date, in accordance with *Property, Plant and Equipment* Topic 360 of the FASB ASC. The fair value of the right-of-use assets was based on the remaining term of each lease. In addition, the Company wrote off a total of $0.3 million in other office lease costs and for obsolete equipment. There were no such charges in fiscal 2021.

Gain on sale of assets. On July 30, 2021, the Company sold the principal assets and certain liabilities of its Pickering and Kincardine offices, located in Ontario, Canada. These two offices were often referred to as Canada Power Systems and principally provided engineering services to two major nuclear power providers in Canada. The two Canada Power Systems offices were part of a reporting unit within the Company's Engineering segment. The Company recorded a net gain on the sale of these assets and liabilities of $2.4 million.

Remeasurement of acquisition related contingent consideration. The Company adjusted the forecasted contingent consideration for active acquisition agreements, which created a discreet gain of $1.7 million**.**

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 by $0.9 million as compared to the comparable prior year period. Interest expense decreased by $0.4 million, primarily due to decreased borrowing, and also due to a decreased average borrowing rate under the Company's line of credit. Other expense, net also decreased by $0.4 million due a gain on foreign currency transactions in the current period as compared to a loss on foreign currency transactions in the comparable prior year period.

Income Tax Expense (Benefit). The Company recognized $2.9 million of income tax expense for the fifty-two week period ended January 1, 2022, as compared to an income tax benefit of $3.2 million for the comparable prior year period. The consolidated effective income tax rate for the current period was 21.0% as compared to 26.4% for the comparable prior year period. The relative income or loss generated in each jurisdiction can materially impact the overall effective income tax rate of the Company, particularly the ratio of Canadian and Serbian pretax income versus U.S. pretax income. The effective income tax rate can also be impacted by discrete permanent differences affecting any period presented.

Fiscal Year Ended January 1, 2022 Compared to Fiscal Year Ended January 2, 2021 (Continued)

The Company considers its 2021 effective income tax rate to be abnormally low, due mainly to permanent differences detailed in footnote 15 in the Company's financial statements. The Company estimates its normalized tax rates for fiscal 2021 as 28.5% for the United States, 26.5% for Canada, and 16.5% for Serbia. Based on the fiscal 2021 pretax income mix, the Company estimates its normalized consolidated tax rate as 27.5%.

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 2021 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.

Segment Discussion

Engineering

Engineering revenues of $66.2 million for the fifty-two week period ended January 1, 2022 increased 14.7%, or $8.5 million, compared to the comparable prior year period. The increase in revenue was comprised of the following: increases in Aerospace revenue of $10.9 million, Industrial Processing revenue of $3.6 million, and Energy Services of $0.9 million, offset by a decrease in revenue from the Canadian Power Systems Group of $6.9 million. The increase in Aerospace revenue was primarily due to a new outsourcing engagement with one of the Company's major customers that is anticipated to become a multi-year contract. The increase in Industrial Processing revenue was primarily due to spending increases with several major customers seeking to upgrade their ethanol related production capability. The decrease in the Canadian Power Systems was primarily due to the sale of this business on July 30, 2021 (see details below). Gross profit decreased by 2.5%, or $0.4 million, as compared to the comparable prior year period. Gross profit decreased because of the decrease in gross profit margin. Gross profit margin of 24.3% for the current period decreased from 28.6% for the comparable prior year period. The decrease in gross margin was due to three factors: 1) decreased revenue from the Canadian Power Systems Group, as lower revenue negatively impacted utilization of the segment's billable consultants; 2) lower gross margin for the new Aerospace contract than the Engineering segment typically experiences; and 3) rework costs on a fixed price contract in the Industrial Processing business. The Engineering segment's SGA expense of $14.2 million increased by $1.2 million due to investment in new personnel to reposition and generate future growth. The Engineering segment experienced operating income of $5.4 million for the fifty-two week period ended January 1, 2022, as compared to an operating loss of $5.9 million for the comparable prior year period. The reason for improved operating income was primarily due to three discrete differences between the current and comparable prior years periods: 1) the gain on sale of assets associated with selling the Canadian Power Systems business (see paragraph below) of $2.4 million in the current period; 2) the remeasurement of acquisition-related contingent consideration; and 3) the $8.4 million write-off of receivables and professional fees incurred related to a discrete arbitration in the comparable prior year prior.

On July 30, 2021, the Company sold the principal assets and certain liabilities of its Pickering and Kincardine offices, located in Ontario, Canada. These two offices were often referred to as the Canadian Power Systems business and principally provided engineering services to two major nuclear power providers in Canada. The two Canadian Power Systems offices were part of a reporting unit within the Company's Engineering segment. The Company will continue to offer other engineering services in Canada and similar services in the United States. For the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021, these two offices generated revenue of $4.9 million and $11.8 million, respectively.

Fiscal Year Ended January 1, 2022 Compared to Fiscal Year Ended January 2, 2021 (Continued)

Segment Discussion (Continued)

COVID-19 Impact to Engineering Segment

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 constrained 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. While the Company has recently seen signs of improvement, given the uncertainties around COVID-19, the Company can give no assurances that it will see an increase in field services revenue. Additionally, the Company believes that COVID-19 has had a significant adverse impact on the budgets of many of its Aerospace and Utilities clients. The Company's Aerospace clients have seen an impact to their commercial lines of business. A number of the Company's Utility clients have been impacted by their customers' inability to pay their monthly electric bills.

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 while recently improved, 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 Company has also invested in new senior personnel, in part because it anticipates improved demand in the near future. The Company plans to refine its strategy for responding to COVID-19 as necessary as the situation develops.

Specialty Health Care

Specialty Health Care revenue of $98.5 million for the fifty-two week period ended January 1, 2022 increased 62.9%, or $38.0 million, as compared to the comparable prior year period. The increase in revenue was driven by both the Company's school and non-school clients. Revenue from school clients for the fifty-two week period ended January 1, 2022 was $55.4 million as compared to $37.3 million for the comparable prior year period. Revenue from non-school clients for the fifty-two week period ended January 1, 2022 was $43.1 million as compared to $23.2 million for the comparable prior year period. Revenue increases were due to the reopening of Specialty Health Care School clients and unprecedented demand for health care professionals across all types of clients served. The Specialty Health Care segment's gross profit increased by 89.4%, or $11.9 million, to $25.3 million for the fifty-two week period ended January 1, 2022, as compared to $13.4 million for the prior year period. The increase in gross profit was primarily driven by the increase in revenue, but also a higher gross profit margin. Gross profit margin for the fifty-two week period ended January 1, 2022 increased to 25.7% as compared to 22.1% for the comparable prior year period. The increase in gross profit margin was primarily due to more normalized revenue and the high demand for certain services. Specialty Health Care experienced operating income of $5.5 million for the fifty-two week period ended January 1, 2022, as compared to an operating loss of $2.6 million for the comparable prior year period. The primary reason for the increase in operating income was the increase to gross profit, offset by an increase in SGA expense. SGA expense increased by $3.9 million to $19.5 million, as compared to $15.6 million in the comparable prior year period. The increase in SGA expense was primarily due to replacing our workforce that was furloughed in the prior year and hiring new employees to help meet increased demand.

Fiscal Year Ended January 1, 2022 Compared to Fiscal Year Ended January 2, 2021 (Continued)

Segment Discussion (Continued)

COVID-19 Impact to Specialty Health Care Segment

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 Specialty Health Care segment has a small number of billable professionals performing services from home, in particular, through its telehealth services offerings, most of its billable staff works at client locations. 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 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. Also, the Company believes that any major changes in the pandemic, such as a new variant, could adversely impact revenue. For example, if the Specialty Health Care segment's school clients were to return to virtual learning, the Specialty Health Care segment could experience a material decline in revenue.

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, closed down for in-person instruction in March 2020. Most of our school clients have opened primarily in-person, but some also offer virtual lessons. Any announced plans are subject to rapid changes. There are numerous factors that could influence further decisions of our school clients on their operations. Any shift toward hybrid and remote operations can have a materially negative impact on revenue generated by the Specialty Healthcare segment. While the Company is optimistic, it is difficult to estimate the impact of any potential school closures on the Company's 2022 fiscal year.

Life Sciences and Information Technology

Life Sciences and Information Technology revenue of $39.2 million for the fifty-two week period ended January 1, 2022 increased 21.7%, or $7.0 million, as compared to $32.2 million for the comparable prior year period. The increase in Life Sciences and Information Technology revenue was primarily driven by the Company's Life Sciences practice. The Company believes that the Life Sciences industry has not seen a negative impact from COVID-19. Gross profit of $11.7 million for the fifty-two week period ended January 1, 2022 increased 30.5%, or $2.7 million, as compared to $9.0 million for the comparable prior year period. The increase in gross profit was primarily due to the increase in revenue, as well as an increase in gross profit margin. The Life Sciences and Information Technology gross profit margin for the fifty-two week period ended January 1, 2022 was 30.0% as compared to 27.9% for the comparable prior year period. The Company attributes the gross profit margin increase to higher revenue from its Life Sciences practice and a concerted effort to increase gross profit margin through its managed service offerings. SGA expense decreased by $0.9 million to $8.3 million, as compared to $9.2 million in the comparable prior year period. The decrease in SGA expense was a driven by a concerted effort to reduce SGA expense after the uncertainty around the COVID-19 crisis. The Life Sciences and Information Technology segment experienced operating income of $3.4 million as compared to an operating loss of $0.2 million for the comparable prior year period. The increase in operating income was primarily due to the increase in revenue and gross profit, and also the decrease in SGA expense.

Fiscal Year Ended January 1, 2022 Compared to Fiscal Year Ended January 2, 2021 (Continued)

Segment Discussion (Continued)

COVID-19 Impact to Life Sciences and Information Technology Segment

It is difficult to assess both the current and future impact from COVID-19 to the Life Sciences and Information Technology segment, due to the high degree of uncertainty around COVID-19 and the duration and extent of the pandemic. The Life Sciences and Information Technology segment has seen a decline in its field services work as its personnel has limited access to client facilities. While the Company has recently seen signs of improvement, 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 Life Sciences and 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 Life Sciences and Information Technology clients have been generally supportive of these efforts and believes further that it has not lost any significant, previously awarded work. The Life Sciences and 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 Company plans to refine its strategy for responding to COVID-19 as necessary as the situation develops.

Supplemental Operating Results on a Non-GAAP Basis

The following non-GAAP measures, which adjust for the categories of expenses described below, are non-GAAP financial measures. Our management believes that these non-GAAP financial measures ("Adjusted operating income (loss)", "EBITDA", "Adjusted EBITDA", "Adjusted net income (loss)", and "Adjusted diluted net earnings (loss) per share") are useful information for investors, shareholders and other stakeholders of our company in gauging our results of operations on an ongoing basis and to enhance investors' overall understanding of our current financial performance and period-to-period comparisons. We believe these non-GAAP financial measures are performance measures and not liquidity measures. These non-GAAP financial measures should not be considered as an alternative to net income (loss) or operating income (loss) as indicators of performance. In addition, neither EBITDA nor Adjusted EBITDA takes into account changes in certain assets and liabilities as well as interest and income taxes that can affect cash flows. We do not intend the presentation of these non-GAAP measures to be considered in isolation or as a substitute for results prepared in accordance with GAAP. These non-GAAP measures should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

The following unaudited tables present the Company's GAAP net income and GAAP operating income and the corresponding adjustments used to calculate Adjusted operating income (loss), EBITDA, Adjusted EBITDA, Adjusted net income (loss) and Adjusted diluted net earnings (loss) per share for the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021.

	Fifty-Two Week Period Ended January 1, 2022	Fifty-Three Week Period Ended January 2, 2021
GAAP operating income (loss)	$14,136	($10,950)
Adjustments		
Write-off of receivables and professional fees incurred related to arbitration	-	8,397
Impairment of right of use assets and related costs	-	2,231
Gain on sale of assets	(2,420)	-
Remeasurement of acquisition related contingent consideration	(1,713)	-
Adjusted operating income (loss) (non-GAAP)	$10,003	($322)
GAAP net income (loss)	$10,989	($8,869)
Income tax expense (benefit)	2,925	(3,188)
Interest expense, net	365	778
Change in fair value of contingent consideration	52	145
Depreciation of property and equipment	1,007	1,065
Amortization of acquired intangible assets	95	321
EBITDA (non-GAAP)	$15,433	($9,748)
Adjustments		
Write-off of receivables and professional fees incurred related to arbitration	-	8,397
Impairment of right of use assets and related costs	-	2,231
Gain on sale of assets	(2,420)	-
Remeasurement of acquisition related contingent consideration	(1,713)	-
Loss (gain) on foreign currency transactions	(195)	184
Adjusted EBITDA (non-GAAP)	$11,105	$1,064

Supplemental Operating Results on a Non-GAAP Basis (Continued)

	Fifty-Two Week Period Ended January 1, 2022	Fifty-Three Week Period Ended January 2, 2021
GAAP net income (loss)	$10,989	($8,869)
Adjustments		
Write-off of receivables and professional fees incurred related to arbitration	-	8,397
Impairment of right of use assets and related costs	-	2,231
Gain on sale of assets	(2,420)	-
Remeasurement of acquisition related contingent consideration	(1,713)	-
Tax impact from normalized rate	(237)	(2,795)
Adjusted net income (loss) (non-GAAP)	$7,093	($1,036)
GAAP diluted net earnings (loss) per share	$0.95	($0.73)
Adjustments		
Write-off of receivables and professional fees incurred related to arbitration	-	$0.69
Impairment of right of use assets and related costs	-	$0.18
Gain on sale of assets	($0.21)	-
Remeasurement of acquisition related contingent consideration	($0.15)	-
Tax impact from normalized rate	$0.02	($0.23)
Adjusted diluted net earnings (loss) per share (non-GAAP)	$0.61	($0.09)

Liquidity and Capital Resources

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

	Fiscal Years Ended	
	January 1, 2022	January 2, 2021
Cash provided by (used in):		
Operating activities	$915	$25,244
Investing activities	$6,291	($460)
Financing activities	($7,554)	($25,632)

Operating Activities

Operating activities provided $0.9 million of cash for the fifty-two week period ended January 1, 2022 as compared to $25.2 million in the comparable prior year period. The major components of cash used in or provided by operating activities in the fifty-two week period ended January 1, 2022 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, accrued expenses and accrued payroll and related costs, and deferred revenue.

For the fifty-two week period ended January 1, 2022, the Company experienced net income of $11.0 million as compared to net loss of $8.9 million for the comparable prior year period. An increase in accounts receivables in the fifty-two week period ended January 1, 2022, used $14.7 million of cash as compared to providing $15.9 million in the comparable prior year period. The Company primarily attributes this increase in accounts receivables for the fifty-two week period ended January 1, 2022 to the increase in revenue for the fifty-two week period ended January 1, 2022, primarily generated during the Company's fiscal fourth quarter. The decrease in accounts receivable for the fifty-three week period ended January 2, 2021 was primarily due to the prolonged impact from COVI-19 in fiscal 2020.

While highly variable, the Company's transit accounts payable typically exceeds the Company's transit accounts receivable, but absolute amounts and differences fluctuate significantly from quarter to quarter in the normal course of business. The net of transit accounts payable and transit accounts receivable was a net payable of $1.1 million as of January 1, 2022 as compared to a net payable of $2.4 million as of January 2, 2021, using $1.3 million of cash during the fifty-two week period ended January 1, 2022. The net of transit accounts payable and transit accounts receivable was a net payable of $2.4 million as of January 2, 2021 as compared to a net receivable of $0.3 million as of December 28, 2019, providing $2.7 million of cash during the fifty-three week period ended January 2, 2021.

Prepaid expenses and other current assets provided cash of $1.8 million for the fifty-two week period ended January 1, 2022 as compared to using $0.2 million of cash for the comparable prior year period. The Company attributes changes to prepaid expenses and other current assets, if any, to general timing of payments in the normal course of business. Since certain expenses are paid before a fiscal year concludes and are amortized over the next fiscal year, prepaid expenses and other current assets generally tend to increase at the end of a fiscal year and decrease during the first half.

An increase in accounts payable and accrued expenses provided cash of $1.5 million for the fifty-two week period ended January 1, 2022 as compared to $1.6 million 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. The Company's accounts payable and accrued expenses balance of $9.3 million as of January 1, 2022 includes $1.6 million for the settlement of a class action suit in California that alleges the Company did not properly pay its travel nurses overtime wages. This liability was paid in early fiscal January 2022.

Liquidity and Capital Resources (Continued)

Operating Activities (Continued)

Changes in accrued payroll and related costs provided cash of $0.1 million for the fifty-two week period ended January 1, 2022 as compared to providing cash of $4.6 million for the fifty-three week period ended January 2, 2021. 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 thirteen weeks in a fiscal quarter, which means that the Company normally has a major payroll on the last business day of every other quarter; 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 fifty-two week period ended January 1, 2022 was paid on December 31, 2021. During fiscal 2020, the Company deferred $3.3 million of employer payroll taxes under the CARES Act. Half of these deferred payroll taxes were paid in fiscal December 2021 and the remaining portion must be paid in fiscal December 2022.

Historically, the Company has experienced small deferred revenue balances that have been included in accounts payable and accrued expenses. During the second half of fiscal 2021, the Company' Industrial Processing group secured several contracts with significant front-loaded payments, thereby generating larger deferred revenue balances than typically generated. The Company's deferred revenue balance as of January 1, 2022 was $3.4 million, as compared to $0.4 million as of January 2, 2021, creating positive cash from operations of $3.0 million for the fifty-two week period ended January 1, 2022. The Company cannot reasonably forecast if it will experience similar deferred revenue balances over the next several quarters as the timing of contract wins and front-loaded payments is typically haphazard.

Investing Activities

Investing activities provided $6.3 million of cash for the fifty-two week period ended January 1, 2022 and used $0.4 million for the fifty-three week period ended January 2, 2021. Investing activities used $0.6 million for the purchase of property and equipment in the current period as compared to $0.5 million in the prior year comparable period. The current period includes $6.9 million in proceeds for the sale of the Company's Canadian Power Systems business.

Financing Activities

Financing activities used $7.6 million of cash for the fifty-two week period ended January 1, 2022 as compared to $25.6 million in the comparable prior year period. The Company made net borrowings under its line of credit of $2.3 million during the fifty-two week period ended January 1, 2022 as compared to net payments of $22.9 million in the comparable prior year period. The Company used $9.0 million to repurchase shares of its common stock in the current period as compared to $2.2 million in the comparable prior year period. 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 contingent consideration of $0.5 million in the current period as compared to $0.3 million in the comparable prior year period.

Liquidity and Capital Resources (Continued)

Financing Activities (Continued)

Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) 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. At the option of Citizens Bank, LIBOR can be replaced with SOFR (Secured Overnight Financing Rate). The LIBOR alternative is being phased out in 2022. Citizens Bank has not indicated when this switch will occur, but in any event, the Company does not believe there will be any material impact on its borrowing rate. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense. The effective weighted average interest rate, including unused line fees, for the fifty-two week period ended January 1, 2022 was 2.0%.

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 January 1, 2022, the Company was in compliance with all covenants contained in the Revolving Credit Facility (as amended). The Company believes that it will maintain compliance with its financial covenants for the foreseeable future.

Borrowings under the line of credit as of January 1, 2022 and January 2, 2021 were $14.2 million and $11.9 million, respectively. At both January 1, 2022 and January 2, 2021 there were letters of credit outstanding for $1.9 million. At January 1, 2022 and January 2, 2021, the Company had availability for additional borrowings under the Revolving Credit Facility of $28.9 million and $35.1 million, respectively.

In addition to borrowings and sales of shares from its equity plans, the Company may raise capital through sales of shares of common stock under its at the market issuance program (the "ATM Program") established under its May 2021 At Market Issuance Sales Agreement with B. Riley Securities, Inc., as the agent (the "Agent"). The ATM Program allows the Company to offer and sell shares of the common stock having an aggregate sales price of up to $17.9 million from time to time through the Agent. To date, the Company has not sold any shares under the ATM Program.

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 was in accordance with the safe harbor from liability under certain market manipulation rules provided by Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and 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 was to become immediately due and payable in the event of a default by the Company. On September 25, 2020, the Company repaid the subordinated promissory note in full.

Liquidity and Capital Resources (Continued)

Current Liquidity and Revolving Credit Facility

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

The Company's liquidity and capital resources as of January 1, 2022, included accounts receivable and total current asset balances of $48.3 million and $51.8 million, respectively. Current liabilities were $30.1 million as of January 1, 2022 and were exceeded by total current assets by $21.7 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 January 1, 2022, 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.

Dividends

All restricted share awards contain a dividend equivalent provision entitling holders to dividends paid between the restricted stock unit grant date and ultimate share distribution date. As of January 1, 2022, there were no accrued dividends.

While the Company, at this time, has no plans to issue any future dividends, any future payment of dividends will depend upon, among other things, the Company's earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions, and other factors that the Board of Directors deems relevant. The Revolving Credit Facility (as discussed above) prohibits the payment of any dividends or distributions on account of the Company's capital stock without the prior consent of the majority of the Company's lenders.

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 is exposed to various asserted claims as of January 1, 2022, where the Company believes it has a probability of loss. Additionally, the Company is exposed to other asserted claims whereby an amount of loss has not been declared, and the Company cannot determine the potential loss. Any of these various claims could result in an unfavorable outcome or settlement that exceeds the accrued amounts. However, the Company believes that such matters will not, either individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. As of January 1, 2022, the Company has accrued $2.9 million for asserted claims. Included in the January 1, 2022 accrual of $2.9 million, the Company has reserved $1.6 million for the settlement of a class-action suit in California that alleges the Company did not properly pay its travel nurses overtime wages. While the Company believes it did not violate any overtime wage laws, it decided to settle this class action lawsuit in December 2020. The Company paid the $1.6 million settlement in early January 2022.

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 plans to upgrade its current system during fiscal 2022. The Company estimates this upgrade or replacement of its financial reporting and accounting system will cost between $0.5 million and $1.0 million. These estimates are subject to material change.

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

The Company leases office facilities and various equipment under non-cancelable leases expiring at various dates through November 2027. Certain leases are subject to escalation clauses based upon changes in various factors. The COVID-19 pandemic has had a profound impact on the Company in 2020. This led the Company to review the guidance in ASC 360-10 to determine if an impairment of a long lived asset had occurred. It was determined that a portion of the office space leased in a number of locations would not be utilized through the remaining lease term. An impairment of the right of use asset for the unused space of $2.2 million was recorded in 2020.

Maturities of lease liabilities are as follows:

Fiscal Year	Operating Leases	Finance Leases
2022	$1,579	$446
2023	1,097	337
2024	396	168
2025	133	-
Thereafter	50	-
Total lease payments	$3,255	$951
Less: imputed interest	(122)	(12)
Total	$3,133	$939

Liquidity and Capital Resources (Continued)

Future Contingent Payments

As of January 1, 2022, 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 January 1, 2022 as follows:

Fiscal Year Ending	Total
December 31, 2022	$103
December 30, 2023	600
Estimated future contingent consideration payments	$703

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 January 1, 2022 are capped at a cumulative maximum of $0.7 million. The Company estimates future contingent consideration payments based on forecasted performance and recorded the fair value of those expected payments as of January 1, 2022. During the fifty-two week period ended January 1, 2022, the Company measured the intangibles acquired at fair value on a non-recurring basis. Contingent consideration related to acquisitions is recorded at fair value (level 3) with changes in fair value recorded in other (expense) income, net.

Significant employment agreements are as follows:

Executive Severance Agreements

The Company is a party to Executive Severance Agreements (the "Executive Severance Agreements") with Mr. Vizi, dated as of June 1, 2018, and Mr. Miller, dated as of February 28, 2014, which set forth the terms and conditions of certain payments to be made by the Company to the executive in the event, while employed by the Company, the executive experiences (a) a termination of employment unrelated to a "Change in Control" (as defined therein) or (b) there occurs a Change in Control and either (i) the executive's employment is terminated for a reason related to the Change in Control or (ii) in the case of Mr. Miller, Mr. Miller the executive remains continuously employed with the Company for three months following the Change in Control.

Under the terms of the Executive Severance Agreement, if either (a) the executive is involuntarily terminated by the Company for any reason other than "Cause" (as defined therein), "Disability" (as defined therein) or death, or (b) the executive resigns for "Good Reason" (as defined therein), and, in each case, the termination is not a "Termination Related to a Change in Control" (as defined below), the executive will receive the following severance payments: (i) an amount equal to 1.5 times the sum of (a) the executive's annual base salary as in effect immediately prior to the termination date (before taking into account any reduction that constitutes Good Reason) ("Annual Base Salary") and (b) the highest annual bonus paid to the executive in any of the three fiscal years immediately preceding the executive's termination date ("Bonus"), to be paid in installments over the twelve month period following the executive's termination date; and (ii) for a period of eighteen months following the executive's termination date, a monthly payment equal to the monthly COBRA premium that the executive is required to pay to continue medical, vision, and dental coverage, for himself and, where applicable, his spouse and eligible dependents.

Liquidity and Capital Resources (Continued)

Future Contingent Payments (Continued)

Executive Severance Agreements (Continued)

Notwithstanding the above, if the executive has a termination as described above and can reasonably demonstrate that such termination would constitute a Termination Related to a Change in Control, and a Change in Control occurs within 120 days following the executive's termination date, the executive will be entitled to receive the payments set forth below for a Termination Related to a Change in Control, less any amounts already paid to the executive, upon consummation of the Change in Control.

Under the terms of the Executive Severance Agreement, if a Change in Control occurs and (a) the executive experiences a Termination Related to a Change in Control on account of (i) an involuntary termination by the Company for any reason other than Cause, death, or Disability, (ii) an involuntary termination by the Company within a specified period of time following a Change in Control (12 months for Mr. Vizi and three months for Mr. Miller) on account of Disability or death, or (iii) a resignation by the executive with Good Reason; or (b) in the case of Mr. Miller, the executive resigns, with or without Good Reason, which results in a termination date that is the last day of the three month period following the Change in Control, then the executive will receive the following severance payments: (1) a lump sum payment equal to two times the sum of the executive's (a) Annual Base Salary and (b) Bonus; and (2) a lump sum payment equal to 24 multiplied by the monthly COBRA premium cost, as in effect immediately prior to the executive's termination date, for the executive to continue medical, dental and vision coverage, as applicable, in such Company plans for himself and, if applicable, his spouse and eligible dependents. Upon the occurrence of a Change in Control, the Company shall establish an irrevocable rabbi trust and contribute to the rabbi trust the applicable amounts due under the Executive Severance Agreement. If Mr. Miller receives the Change in Control Payment following his resignation at the end of the three month period following the Change in Control, he will not be eligible to receive any severance payments under his Executive Severance Agreement.

Mr. Miller's Executive Severance Agreement provides that if Mr. Miller remains continuously employed for three months following a Change in Control and is employed by the Company on the last day of such specified period, Mr. Miller will receive a lump sum payment equal to two times the sum of his (a) Annual Base Salary and (b) Bonus (the "Change in Control Payment"). If Mr. Miller receives the Change in Control Payment, he will not be eligible to receive any severance payments under his Executive Severance Agreement.

Mr. Saks, along with several other members of the Company's senior management (not including Mr. Vizi and Mr. Miller), is covered by our Change in Control Plan for Selected Executive Management (the "CIC Plan").

Off-Balance Sheet Arrangements

None.

Impact of Inflation

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

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

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

New Accounting Standards

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326).* The new standard amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. In February 2020, the FASB issued ASU 2020-02, *Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842),* which amends the effective date of the original pronouncement for smaller reporting companies. ASU 2016-13 and its amendments will be effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2022. 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 London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued due to reference rate reform. This guidance provides temporary optional expedients and exceptions to accounting guidance on contract modifications and hedge accounting to ease entities' financial reporting burdens as the market transitions from the LIBOR and other interbank offered rates to alternative reference rates. 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of 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 January 1, 2022, 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 fifty-two week period ended January 1, 2022, if the interest rate on the Company's variable-rate line of credit (using an incremental borrowing rate) during the period had been 1.0% higher, the Company's interest expense on an annualized basis would have increased by $0.2 million. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Company's Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal 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 fiscal year ended January 1, 2022, that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

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

Management performed an assessment of the effectiveness of our internal control over financial reporting as of January 1, 2022 based upon criteria in Internal Control-Integrated Framework issued and updated in fiscal 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management determined that the Company's internal control over financial reporting was effective as of January 1, 2022, based on the criteria in Internal Control-Integrated Framework issued by COSO.

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

ITEM 9B. OTHER INFORMATION

None

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 shall be included in the 2022 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 shall be included in the 2022 Proxy Statement and is incorporated herein by reference.

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

Except as set forth below, the information required by Item 12 shall be included in the 2022 Proxy Statement and is incorporated herein by reference.

The table below presents certain information as of January 1, 2022 concerning securities issuable in connection with equity compensation plans that have been approved by the Company's shareholders and that have not been approved by the Company's shareholders.

Plan category	Number of securities to be potentially issued upon realization of restricted stock awards	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for issuance under equity compensation plans, excluding securities reflected in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	545,628(1)	N/A	107,924
Equity compensation plans not approved by security holders	—	—	—
Total	545,628(1)	N/A	107,924

(1) Includes time-based restricted stock units of 371,872, time-based restricted stock awards of 48,756 and performance-based restricted stock units of 125,000, none of which have an exercise price.

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

The information required by Item 13 shall be included in the 2022 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 shall be included in the 2022 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

3. See Item (b) below.

(b) Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this report (unless otherwise indicated, the file number with respect to each filed document is 1-10245):

	(3)(a)	Articles of Incorporation, as amended; incorporated by reference to Exhibit 3(a) to the Registrant’s Annual Report on Form 10-K for the fiscal year ended October 31, 1994, filed with the Securities and Exchange Commission on January 4, 1995.
	(3)(b)	Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit A to the Registrant’s Proxy Statement, dated February 6, 1996, filed with the Securities and Exchange Commission on January 29, 1996.
	(3)(c)	Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit B to the Registrant’s Proxy Statement, dated February 6, 1996, filed with the Securities and Exchange Commission on January 29, 1996.
	(3)(d)	Amended and Restated Bylaws; incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2014 (the “January 2014 8-K”).
	(3)(e)	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)(a)	Description of Capital Stock. (Filed herewith)
*	(10)(a)	RCM Technologies, Inc. 2000 Employee Stock Incentive Plan, dated January 6, 2000; incorporated by reference to Exhibit A to the Registrant’s Proxy Statement, dated March 3, 2000, filed with the Securities and Exchange Commission on February 28, 2000.
*	(10)(b)	The RCM Technologies, Inc. 2007 Omnibus Equity Compensation Plan; incorporated by reference to Annex A to the Registrant’s Proxy Statement, dated April 20, 2007, filed with the Securities and Exchange Commission on April 19, 2007.
*	(10)(c)	Executive Severance Agreement between RCM Technologies, Inc. and Kevin Miller dated December 27, 2012; incorporated by reference to Exhibit 99.2 to the Registrant’s Current Report on Form 8-K dated December 27, 2012, filed with the Securities and Exchange Commission on December 28, 2012.
*	(10)(d)	Amendment No. 1 to Executive Severance Agreement between RCM Technologies, Inc. and Kevin Miller dated December 26, 2017; incorporated by reference to Exhibit 10(x) to the Registrant’s Annual Report on Form 10-K for this fiscal year ended January 2, 2021, filed with the Securities and Exchange Commission on March 8, 2018.

(b) Exhibits (Continued)

*	(10)(e)	RCM Technologies, Inc. Amended and Restated 2014 Omnibus Equity Compensation Plan (as amended through December 17, 2020); incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on December 18, 2020.
*	(10)(f)	Amendment to RCM Technologies, Inc. 2014 Omnibus Equity Compensation Plan; incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 15, 2021.
*	(10)(g)	Form of Stock Unit Agreement; incorporated by reference to Exhibit 99.2 to the December 2014 8-K.
*	(10)(h)	RCM Technologies, Inc. Change in Control Plan for Selected Executive Management (filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 12, 2015 and incorporated herein by reference).
*	(10)(i)	Amendment 2015-3 to the RCM Technologies, Inc. 2001 Employee Stock Purchase Plan; incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement for the 2015 Annual Meeting filed with the Securities and Exchange Commission on October 30, 2015.
*	(10)(j)	Amendment 2018-4 to the RCM Technologies, Inc. 2001 Employee Stock Purchase Plan; 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 December 18, 2018.
*	(10)(k)	Amendment 2021-5 to the RCM Technologies, Inc. Employee Stock Purchase Plan; incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement for its 2021 Annual Meeting of Stockholders, filed with the Securities and Exchange Commission on November 12, 2021.
*	(10)(l)	Executive Severance Agreement, dated as of June 1, 2018, by and between the Company and Bradley S. Vizi; incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 7, 2018.
	(10)(m)	Third Amended & Restated Loan and Security Agreement, dated as of August 9, 2018, by and among the Company and all of its subsidiaries, Citizens Bank of Pennsylvania, a Pennsylvania state chartered bank, in its capacity as administrative agent and arranger, and Citizens Bank of Pennsylvania, as lender; incorporated by reference to Exhibit 10(d) to the Registrant's Quarterly Report on Form 10-Q for this fiscal quarter ended June 30, 2018, filed with the Securities and Exchange Commission on August 14, 2018.
	(10)(n)	First Amendment to Third Amended and Restated Loan Agreement, dated as of August 9, 2018, by and among the Company and all of its subsidiaries, 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 99 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 22, 2019.

(b) Exhibits (Continued)

(10)(o) Amendment No. 2 to Third Amended and Restated Loan Agreement, dated as of June 2, 2020, by and among the Company and all of its subsidiaries, 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 Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 2, 2020.

(10)(p) Amendment No. 3 to Third Amended and Restated Loan Agreement, dated as of September 29, 2020, by and among the Company and all of its subsidiaries, 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 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 1, 2020.

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

(23.1) Consent of Macias, Gini & O'Connell, LLP. (Filed herewith)

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

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

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

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

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (CONTINUED)

(b) Exhibits (Continued)

*	101.INS	XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
*	101.SCH	Inline XBRL Taxonomy Extension Schema Document
*	101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
*	101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
*	101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Documents
*	101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
	104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Constitutes a management contract or compensatory plan or arrangement.

\+ The Registrant will furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

RCM Technologies, Inc.

Date: April 4, 2022	By: /s/ Bradley S. Vizi **Bradley S. Vizi** Executive Chairman and President
Date: April 4, 2022	By: /s/ Kevin D. Miller **Kevin D. Miller** Chief Financial Officer, Treasurer and Secretary

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

Date: April 4, 2022	By: /s/ Bradley S. Vizi **Bradley S. Vizi** Executive Chairman and President
Date: April 4, 2022	By: /s/ Kevin D. Miller **Kevin D. Miller** Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)
Date: April 4, 2022	By: /s/ Roger H. Ballou **Roger H. Ballou** Director
Date: April 4, 2022	By: /s/ Richard A. Genovese **Richard A. Genovese** Director
Date: April 4, 2022	By: /s/ Swarna Kakodkar **Swarna Kakodkar** Director
Date: April 4, 2022	By: /s/ Jayanth S. Komarneni **Jayanth S. Komarneni** Director

RCM TECHNOLOGIES, INC.

FORM 10-K

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
January 1, 2022 and January 2, 2021
(Amounts in thousands, except share and per share amounts, unless otherwise indicated)

	January 1, 2022	January 2, 2021
Current assets:		
Cash and cash equivalents	$235	$734
Accounts receivable, net	48,240	36,007
Transit accounts receivable	1,010	2,494
Prepaid expenses and other current assets	2,486	4,699
Total current assets	51,971	43,934
Property and equipment, net	1,939	2,078
Other assets:		
Deposits	176	169
Deferred tax assets, net, domestic	535	3,300
Goodwill	16,354	16,354
Operating right of use asset	1,877	2,409
Intangible assets, net	-	95
Total other assets	18,942	22,327
Total assets	$72,852	$68,339
Current liabilities:		
Accounts payable and accrued expenses	$9,306	$7,497
Transit accounts payable	2,064	4,900
Accrued payroll and related costs	13,027	12,877
Finance lease payable	437	247
Income taxes payable	-	436
Operating right of use liability	1,502	1,886
Liability for contingent consideration from acquisitions	103	500
Deferred revenue	3,418	398
Total current liabilities	29,857	28,741
Deferred tax liability, foreign	142	365
Finance lease payable	502	106
Liability for contingent consideration from acquisitions	600	2,358
Operating right of use liability, net of current position	1,631	2,641
Borrowings under line of credit	14,151	11,890
Total liabilities	46,883	46,101
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; 16,903,157 shares issued and 10,290,935 shares outstanding at January 1, 2022 and 16,224,191 shares issued and 11,542,880 shares outstanding at January 2, 2021	845	811
Stock subscription receivable	-	(420)
Additional paid-in capital	111,068	109,588
Accumulated other comprehensive loss	(2,699)	(2,550)
Accumulated deficit	(56,985)	(67,974)
Treasury stock (6,612,222 shares at January 1, 2022 and 4,681,311 at January 2, 2021) at cost	(26,260)	(17,217)
Stockholders' equity	25,969	22,238
Total liabilities and stockholders' equity	$72,852	$68,339

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Fiscal Years Ended January 1, 2022 and January 2, 2021
(Dollars in thousands, except per share amounts, unless otherwise indicated)

	January 1, 2022	January 2, 2021
Revenues	$203,875	$150,409
Cost of services	150,751	111,554
Gross profit	53,124	38,855
Operating costs and expenses		
Selling, general and administrative	42,019	37,791
Depreciation and amortization of property and equipment	1,007	1,065
Amortization of acquired intangible assets	95	321
Write-off of receivables and professional fees incurred related to arbitration	-	8,397
Impairment of right of use assets and related costs	-	2,231
Gain on sale of assets	(2,420)	-
Remeasurement of acquisition-related contingent consideration	(1,713)	-
Operating costs and expenses	38,988	49,805
Operating income (loss)	14,136	(10,950)
Other expense (income)		
Interest expense and other, net	365	778
Change in fair value of contingent consideration	52	145
Loss (gain) on foreign currency transactions	(195)	184
Other expense, net	222	1,107
Income (loss) before income taxes	13,914	(12,057)
Income tax expense (benefit)	2,925	(3,188)
Net income (loss)	$10,989	($8,869)
Basic net earnings (loss) per share	$1.00	($0.73)
Diluted net earnings (loss) per share	$0.95	($0.73)

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Fiscal Years Ended January 1, 2022 and January 2, 2021
(Dollars in thousands unless otherwise indicated)

	January 1, 2022	January 2, 2021
Net income (loss)	$10,989	($8,869)
Other comprehensive (loss) income	(149)	198
Total comprehensive income (loss)	$10,840	($8,671)

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Fiscal Years Ended January 1, 2022 and January 2, 2021
(Amounts in thousands, except share amounts, unless otherwise indicated)

	Common Stock		Stock Subscription Receivable	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Total
	Issued Shares	Amount					Shares	Amount	
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	117,983	6	-	202	-	-	-	-	208
Stock subscription receivable	-	-	(420)	420	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	198	-	-	-	198
Share-based compensation expense	-	-	-	528	-	-	-	-	528
Issuance of stock upon vesting of restricted share awards	279,317	14	-	(14)	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	-	1,858,139	(2,230)	(2,230)
Net loss	-	-	-	-	-	(8,869)	-		(8,869)
Balance, January 2, 2021	16,224,191	$811	($420)	$109,588	($2,550)	($67,974)	4,681,311	($17,217)	$22,238
Issuance of stock under employee stock purchase plan	101,784	5	-	131	-	-	-	-	136
Stock subscription receivable	250,000	13	420	(13)	-	-	-	-	420
Foreign currency translation adjustment	-	-	-	-	(149)	-	-	-	(149)
Share-based compensation expense	-	-	-	1,358	-	-	-	-	1,358
Issuance of stock upon vesting of restricted share awards	327,182	16	-	(16)	-	-	-	-	-
Effect of excess tax deduction over book expense associated with exercise of equity awards	-	-	-	20	-	-	-	-	20
Purchase of treasury stock	-	-	-	-	-	-	1,930,911	($9,043)	(9,043)
Net income	-	-	-	-	-	10,989	-	-	10,989
Balance, January 1, 2022	16,903,157	$845	$ -	$111,068	($2,699)	($56,985)	6,612,222	($26,260)	$25,969

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal Years Ended January 1, 2022 and January 2, 2021
(Dollars in thousands unless otherwise indicated)

	January 1, 2022	January 2, 2021
Cash flows from operating activities:		
Net income (loss)	$10,989	($8,869)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,102	1,386
Gain on sale of assets	(2,420)	-
Remeasurement of acquisition-related contingent consideration	(1,713)	-
Impairment of right of use assets and related costs	-	2,231
Change in fair value of contingent consideration	52	145
Share-based compensation expense	1,358	1,108
Effect of excess tax deduction on equity awards	20	-
Provision for losses on accounts receivable	(208)	7,911
Deferred income tax expense (benefit)	2,542	(3,712)
Amortization of right of use assets	1,057	1,490
Changes in assets and liabilities:		
Accounts receivable	(14,710)	15,947
Net of transit accounts receivable and payable	(1,317)	2,757
Prepaid expenses and other current assets	1,838	(162)
Accounts payable and accrued expenses	1,518	1,587
Accrued payroll and related costs	149	4,557
Right of use liabilities	(1,919)	(1,529)
Income taxes payable	(436)	304
Deferred revenue	3,020	52
Deposits	(7)	41
Total adjustments	(10,074)	34,113
Net cash provided by operating activities	915	25,244
Cash flows from investing activities:		
Property and equipment acquired	(568)	(460)
Proceeds from sale of assets	6,859	-
Net cash provided by (used in) investing activities	6,291	(460)
Cash flows from financing activities:		
Borrowings under line of credit	110,481	73,238
Repayments under line of credit	(108,220)	(96,109)
Issuance of stock for employee stock purchase plan	137	208
Changes in finance lease obligations	(415)	(394)
Contingent consideration paid	(494)	(345)
Common stock repurchase	(9,043)	(2,230)
Net cash used in financing activities	(7,554)	(25,632)
Effect of exchange rate changes on cash and cash equivalents	(151)	(265)
Decrease in cash and cash equivalents	(499)	(1,113)
Cash and cash equivalents at beginning of period	734	1,847
Cash and cash equivalents at end of period	$235	$734
Supplemental cash flow information:		
Cash paid for:		
Interest	$417	$1,026
Income taxes	$1,010	$264
Non-cash financing activities:		
Issuance of accrued share-based compensation	$580	$492
ROU assets obtained in exchange for lease obligations	$1,832	$258

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

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

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

Cash and Cash Equivalents

The Company considers its holdings of highly liquid money-market instruments and certificates of deposits to be cash equivalents if the securities mature within 90 days from the date of acquisition. These investments are carried at cost, which approximates fair value. The Company’s cash balances are maintained in accounts held by major banks and financial institutions. The majority of these balances may exceed federally insured amounts. The Company held \$21 and \$42 of cash and cash equivalents in Canadian banks as of January 1, 2022 and January 2, 2021, respectively, which was held principally in Canadian dollars. The Company held \$169 and \$246 of cash and cash equivalents in Serbian banks as of January 1, 2022 and January 2, 2021, respectively, which was held in various currencies.

Fair Value of Financial Instruments

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

Accounts Receivable and Allowance for Doubtful Accounts

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued and Unbilled Accounts Receivable and Work-in-Process

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

Transit Accounts Receivable and Transit Accounts Payable

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

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets

The Company's intangible assets have been generated through acquisitions. The Company maintains responsibility for valuing and determining the useful life of intangible assets. As a general rule, the Company amortizes restricted covenants over four years and customer relationships over six years. However, circumstances may dictate other amortization terms as determined by the Company and assisted by their third party advisors.

Canadian Sales Tax

The Company is required to charge and collect sales tax for all Canadian clients and remits invoiced sales tax monthly to the Canadian taxing authorities whether collected or not. The Company does not collect the sales tax from its clients until they have paid their respective invoices. The Company includes uncollected Canadian sales tax invoiced to clients in its prepaid and other current assets.

Goodwill

Goodwill is not amortized but is subject to periodic testing for impairment in accordance with FASB ASC 350 "*Intangibles - Goodwill and Other.*" The Company tests goodwill for impairment on an annual basis as of the last day of the Company's fiscal December each year or more frequently if events occur or circumstances change indicating that the fair value of the goodwill may be below its carrying amount. The Company has three reporting units. The Company uses a market-based approach to determine the fair value of the reporting units. This approach uses earnings/revenue multiples of similar companies recently completing acquisitions and the ability of our reporting units to generate cash flows as measures of fair value of our reporting units. The Company adopted Accounting Standards Update ("ASU") 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" effective January 2, 2021 which has eliminated Step 2 from the goodwill impairment test. Under this update, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. To satisfy the "Step 0 Test", the Company reviewed industry and market conditions, reporting unit specific events as well as overall financial performance and found no impairment of goodwill.

The Company did not record a goodwill impairment charge in fiscal years ended January 1, 2022 and January 2, 2021. There can be no assurance that future indicators of impairment and tests of goodwill impairment will not result in an impairment charge.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Lived and Intangible Assets

The Company evaluates long-lived assets and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When 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.

Software

In accordance with FASB ASC 350-40 "Accounting for Internal Use Software," certain costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software. During the fiscal years ended January 1, 2022 and January 2, 2021, the Company capitalized $1,256 and $305, respectively, for software costs. The net balance after accumulated depreciation for all software costs capitalized as of January 1, 2022 and January 2, 2021 was $1,350 and $1,389, respectively.

Income Taxes

The Company makes judgments and interpretations based on enacted tax laws, published tax guidance, as well as estimates of future earnings. These judgments and interpretations affect the provision for income taxes, deferred tax assets and liabilities and the valuation allowance. The Company evaluated the deferred tax assets and determined on the basis of objective factors that the net assets will be realized through future years' taxable income. In the event that actual results differ from these estimates and assessments, additional valuation allowances may be required. The Company did not have any valuation allowance as of January 1, 2022 or January 2, 2021.

The Company accounts for income taxes in accordance with FASB ACS 740 "Income Taxes" (FASB ASC 740) which requires an asset and liability approach of accounting for income taxes. FASB ASC 740 requires assessment of the likelihood of realizing benefits associated with deferred tax assets for purposes of determining whether a valuation allowance is needed for such deferred tax assets. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted. The Company measures its deferred tax assets and liabilities using the tax rates that the Company believes will apply in the years in which the temporary differences are expected to be recovered or paid. The Company and its wholly owned United States subsidiaries file a consolidated federal income tax return. The Company also files tax returns in Canada, Puerto Rico and Serbia.

The Company also follows the provisions of FASB ASC 740 which prescribes a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Company's policy is to record interest and penalty, if any, as interest expense.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The following table presents our revenues disaggregated by revenue source for the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021:

	January 1, 2022	January 2, 2021
Engineering:		
Time and Material	$45,035	$43,359
Fixed Fee	21,070	14,145
Permanent Placement Services	67	211
Total Engineering	$66,172	$57,715
Specialty Health Care:		
Time and Material	$97,363	$59,692
Permanent Placement Services	1,132	789
Total Specialty Health Care	$98,495	$60,481
Life Sciences and Information Technology:		
Time and Material	$38,571	$31,723
Permanent Placement Services	637	490
Total Life Sciences and Information Technology	$39,208	$32,213
	$203,875	$150,409

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. From time-to-time, amounts paid in excess of revenue earned and recognized are recorded as deferred revenue, included in accounts payable and accrued expenses on the accompanying consolidated balance sheets. Additionally, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when earned. Some contracts also limit revenue and billings to specified maximum amounts. Provisions for contract losses, if any, are made in the period such losses are determined. For contracts where there is a specific deliverable and the work is not complete and the revenue is not recognized, the costs incurred are deferred as a prepaid asset. The associated costs are expensed when the related revenue is recognized.

Permanent Placement Services

The Company earns permanent placement fees from providing permanent placement services. These fees are typically based on a percentage of the compensation paid to the person placed with the Company's client. The Company guarantees its permanent placements on a prorated basis for 90 days. In the event a candidate is not retained for the 90-day period, the Company will provide a suitable replacement candidate. In the event a replacement candidate cannot be located, the Company will provide a prorated refund to the client. An allowance for refunds, based upon the Company's historical experience, is recorded in the financial statements. Permanent placement revenue was $1.8 million for the fiscal year ended January 1, 2022 and $1.5 million for the fiscal year ended January 2, 2021.

The deferred revenue balance as of January 1, 2022 and January 2, 2021 was $3.4 million and $0.4 million, respectively. These amounts are included in accounts payable and accrued expense in the accompanying consolidated balance sheets at that date. Revenue is recognized when the service has been performed. Deferred revenue may be recognized over a period exceeding one year from the time it was recorded on the balance sheet, although this is an infrequent occurrence. In each of the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021, the Company recognized revenue of $0.4 million that was included in deferred revenue at the beginning of the period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Transit Receivables and Transit Payables

From time to time, the Company's Engineering segment enters into agreements to provide, among other things, construction management and engineering services. Pursuant to these agreements, the Company a) 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 $1.0 million and related transit accounts payable was $2.1 million, for a net payable of $1.1 million, as of January 1, 2022. The transit accounts receivable was $2.5 million and related transit accounts payable was $4.9 million, for a net payable of $2.4 million, as of January 2, 2021.

Concentration

During the fiscal year ended January 1, 2022, no client accounted for 10% or more of total revenues. As of January 1, 2022, the following clients represented more than 10.0% of the Company's accounts receivable, net: Ginkgo Bioworks was 15.3% and Hawaii Department of Education was 14.2%. No other customer accounted for 10% or more of the Company's accounts receivable, net. The Company's five, ten and twenty largest customers accounted for approximately 35.8%, 52.5% and 65.1%, respectively, of the Company's revenues for the fiscal year ended January 1, 2022.

During the fiscal year ended January 2, 2021, New York City Board of Education represented 10.6% of the Company's revenues. No other client accounted for 10% or more of total revenues during the year. As of January 2, 2021, the following clients represented more than 10.0% of the Company's accounts receivable, net: New York City Board of Education was 11.8% and Hawaii Department of Education was 10.6%. No other customer accounted for 10% or more of the Company's accounts receivable, net. The Company's five, ten and twenty largest customers accounted for approximately 33.4%, 46.6% and 60.7%, respectively, of the Company's revenues for the fiscal year ended January 2, 2021.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation

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

Comprehensive Income

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

Per Share Data

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

Share - Based Compensation

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

Restricted share awards are recognized at their fair value. The amount of compensation cost is measured on the grant date fair value of the equity instrument issued. The compensation cost of the restricted share awards is recognized over the vesting period of the restricted share awards on a straight-line basis. Restricted share awards typically include dividend accrual equivalents, which means that any dividends paid by the Company during the vesting period become due and payable after the vesting period assuming the grantee's restricted stock unit fully vests. Dividends for these grants are accrued on the dividend payment dates and included in accounts payable and accrued expenses on the accompanying consolidated balance sheet. Dividends for restricted share awards that ultimately do not vest are forfeited.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was $914 and $800 for the fiscal years ended January 1, 2022 and January 2, 2021, respectively.

Fair Value Measurements

The Company values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy was established that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation. These classifications had no effect on the previously reported results of operations.

2. FISCAL YEAR

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. The fiscal year ended January 1, 2022 (fiscal 2021) was a 52-week reporting year. The fiscal year ended January 2, 2021 (fiscal 2020) was a 53-week reporting year.

3. USE OF ESTIMATES AND UNCERTAINTIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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, transit accounts payable and borrowings under line of credit approximates fair value due to their liquidity or their short-term nature and the line of credit's variable interest rate. The Company does not have derivative products in place to manage risks related to foreign currency fluctuations for its foreign operations or for interest rate changes.

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

(Dollars 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:

	January 1, 2022	January 2, 2021
Billed	$37,396	$25,926
Accrued and unbilled	10,231	8,219
Work-in-progress	1,810	3,612
Allowance for sales discounts and doubtful accounts	(1,197)	(1,750)
Accounts receivable, net	$48,240	$36,007

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.

5. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	January 1, 2022	January 2, 2021
Computers and systems	$4,133	$4,686
Equipment and furniture	86	264
Leasehold improvements	159	236
	4,378	5,185
Less: accumulated depreciation and amortization	2,439	3,107
Property and equipment, net	$1,939	$2,078

The Company periodically writes off fully depreciated and amortized assets. The Company wrote off fully depreciated and amortized assets of $1,671 and $1,529 during the fiscal years ended January 1, 2022 and January 2, 2021, respectively. In addition, $713 of assets not fully depreciated were included in the sale of the Canadian Power Systems business. For the fiscal years ended January 1, 2022 and January 2, 2021, depreciation and amortization expense for property and equipment was $1,007 and $1,065, respectively.

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

6. ACQUISITIONS

The purchase method of accounting in accordance with FASB ASC 805, "Business Combination," was applied for all acquisitions. This requires the cost of an acquisition to be allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition with the excess cost accounted for as goodwill. Goodwill arising from the acquisitions is attributable to expected sales synergies from combining the operations of the acquired business with those of the Company.

<u>Future Contingent Payments</u>
As of January 1, 2022, 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 January 1, 2022 as follows:

Fiscal Year Ending	Total
December 31, 2022	$103
December 30, 2023	600
Estimated future contingent consideration payments	$703

Estimates of future contingent payments are subject to significant judgment and actual payments may materially differ from estimates. In the fourth quarter of 2021, the Company remeasured the value of its contingent consideration. The primary driver for remeasuring the contingent consideration was the performance by Thermal Kinetics Engineering ("TKE") acquired by RCM in 2018. TKE had very high yearly EBIT targets to achieve earn-out consideration. TKE performed quite well but two factors contributed to TKE not hitting its targets. The first was the COVID-19 pandemic which overlapped earn-out years 2 and 3. TKE had numerous projects in its pipeline that were delayed or eliminated by prospective clients. The second factor relates to a specific client in earn-out year 2. This client experienced some problems with the product output, TKE agreed to fix the equipment to keep a valued client happy, thus the additional cost caused TKE to miss its earn-out target. Based on these factors, the Company decided to amend its asset purchase agreement with TKE to a total of $0.7 million. Potential future contingent payments to be made to all active acquisitions after January 1, 2022 are capped at a cumulative maximum of $0.7 million. The Company estimates future contingent consideration payments based on forecasted performance and recorded the fair value of those expected payments as of January 1, 2022. Contingent consideration related to acquisitions is recorded at fair value (level 3) with changes in fair value recorded in other (expense) income, net.

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

6. ACQUISITIONS (CONTINUED)

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

In the fourth quarter of 2021, the Company remeasured the value of its contingent consideration. The primary driver for remeasuring the contingent consideration was the performance by Thermal Kinetics Engineering ("TKE") acquired by RCM in 2018. This remeasurement lead to a $1.7M reduction to the contingent consideration liability. TKE had very high yearly EBIT targets to achieve earn-out consideration. TKE performed quite well but two factors contributed to TKE not hitting its targets. The first was the COVID-19 pandemic which overlapped earn-out years 2 and 3. TKE had numerous projects in its pipeline that were delayed or eliminated by prospective clients. The second factor relates to a specific client in earn-out year 2. This client experienced some problems with the product output, TKE agreed to fix the equipment to keep a valued client happy, thus the additional cost caused TKE to miss its earn-out target. Based on these factors, the Company decided to amend its asset purchase agreement with TKE.

The Company paid contingent consideration of $0.5 million and $0.3 million during the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021, respectively.

The changes in the liability for contingent consideration from acquisitions for the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021 are as follows:

Balance as of December 28, 2019	$3,058
Contingent payments made	(345)
Changes in fair value of contingent payments	145
Balance as of January 2, 2021	$2,858
Contingent payments made	(494)
Changes in fair value of contingent consideration	52
Remeasurement of contingent consideration	(1,713)
Balance as of January 1, 2022	$703

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

6. ACQUISITIONS (CONTINUED)

Sale of Assets

On July 30, 2021, the Company sold the principal assets and certain liabilities of its Pickering and Kincardine offices, located in Ontario, Canada. These two offices were often referred to as Canada Power Systems and principally provided engineering services to two major nuclear power providers in Canada. The two Canada Power Systems offices were part of a reporting unit within the Company's Engineering segment. The Company will continue to offer other engineering services in Canada and similar services in the United States. The Company evaluated this transaction under ASC 205-20, discontinued operations and determined it did not meet the requirements to be treated as such. For the fifty-two week period ended January 1, 2022 and fifty-three week period ended January 2, 2021, these two offices generated revenue of $4.9 million and $11.8 million, respectively. The Company recorded a gain on the sale of these net assets of $2.4 million. The purchase agreement provides for a typical indemnity escrow held by an independent escrow agent in the amount of $0.8 million. The escrow has not been recognized in the Company's financial statements, as the Company does not control the escrow. Provided there are no asserted indemnity claims, the Company expects to receive the $0.8 million about 18 months from the purchase date.

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 fifty-two week period ended January 1, 2022, 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 may continue to negatively impact the Company in the future, the Company did not conclude in such review that this negative impact is permanent. The Company reviewed industry and market conditions, reporting unit specific events as well as overall financial performance and determined that no indicators of impairment of goodwill existed during the fifty-two week period ended January 1, 2022 and fifty-three week period ended January 2, 2021. As such, no impairment loss on the Company's goodwill during the fifty-two week period ended January 1, 2022 or the fifty-three week period ended January 2, 2021 was recorded as a result of such review.

The changes in the carrying amount of goodwill for the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021 are as follows:

	Engineering	Specialty Health Care	Information Technology	Total
Balance as of December 28, 2019	$11,918	$2,398	$2,038	$16,354
No change in fiscal 2020	-	-	-	-
Balance as of January 2, 2021	$11,918	$2,398	$2,038	$16,354
No change in fiscal 2021	-	-	-	-
Balance as of January 1, 2022	$11,918	$2,398	$2,038	$16,354

(Dollars 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 fifty-two week period ended January 1, 2022, 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 may continue to negatively impact the Company in the future, the Company did not conclude in such review that this negative impact is permanent. As such, no impairment loss on the Company's intangible assets during the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021 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.

Details of intangible assets by class at January 1, 2022 and January 2, 2021:

	January 1, 2022	January 2, 2021
Restricted covenants	$ -	$12
Customer relationships	-	83
Total intangible assets	$ -	$95

Amortization of acquired intangible assets for the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021 was $95 and $321, respectively. The remaining intangible asset balance will be amortized during fiscal 2021.

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 September 29, 2020, the Company entered into an amendment to its Revolving Credit Facility. The amendment (i) modifies certain aspects of the financial covenants under the Loan Agreement, including the manner in which the measurement periods for certain components of the financial covenants are determined, (ii) modifies the required compliance levels for certain ratios under the Loan Agreement, and (iii) permitted the repayment of $2.2 million of indebtedness to a third party incurred in connection with the previously disclosed June 2020 repurchase of stock.

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. At the option of Citizens Bank, LIBOR can be replaced with SOFR (Secured Overnight Financing Rate). The LIBOR alternative is being phased out in 2022. Citizens Bank has not indicated when this switch will occur, but in any event, the Company does not believe there will be any material impact on its borrowing rate. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn. Unused line fees are recorded as interest expense. The effective weighted average interest rate, including unused line fees, for the fifty-two week period ended January 1, 2022 and fifty-three week period ended January 2, 2021 were 2.0% and 2.7%, respectively.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as a covenant that restricts on the Company's ability to borrow in order to pay dividends. As of January 1, 2022, the Company was in compliance with all covenants contained in the Revolving Credit Facility (as amended). The Company believes that it will maintain compliance with its financial covenants for the foreseeable future.

Borrowings under the line of credit as of January 1, 2022 and January 2, 2021 were $14.2 million and $11.9 million, respectively. At both January 1, 2022 and January 2, 2021, there were letters of credit outstanding for $1.9 million. At January 1, 2022, the Company had availability for additional borrowings under the Revolving Credit Facility of $28.9 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.

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

10. PER SHARE DATA

The Company uses the treasury stock method to calculate the weighted-average shares outstanding used for diluted earnings per share. The number of weighted-average shares used to calculate basic and diluted earnings per share for the fiscal years ended January 1, 2022 and January 2, 2021 was determined as follows:

	Fiscal Years Ended	
	January 1, 2022	January 2, 2021
Basic weighted average shares outstanding	11,035,361	12,152,042
Dilutive effect of outstanding restricted share awards	589,740	-
Weighted average dilutive shares outstanding	11,625,101	12,152,042

Because the year ended January 2, 2021 recorded a net loss, the otherwise dilutive effect of 46,873 outstanding restricted share awards has not been included in the weighted average diluted shares outstanding. For the years ended January 1, 2022 and January 2, 2021, there were no anti-dilutive shares included in the calculation of common stock equivalents.

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

	January 1, 2022	January 2, 2021
Time-based restricted stock awards outstanding	420,628	459,805
Unvested subscription restricted share awards	-	250,000
Performance-based restricted stock awards outstanding	125,000	-
Future grants of options or shares	107,924	520,929
Shares reserved for employee stock purchase plan	448,110	149,894
Total	1,101,662	1,380,628

11. SHARE BASED COMPENSATION

At January 1, 2022, 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 typically vest over periods ranging from one to three years and expire within 10 years of issuance. The Company may also issue immediately vested equity awards. Share-based compensation expense related to time-based awards is amortized in accordance with applicable vesting periods using the straight-line method. The Company expenses performance-based awards only when the performance metrics are likely to be achieved and the associated awards are therefore likely to vest. Performance-based share awards that are likely to vest are also expensed on a straight-line basis over the vesting period but may vest on a retroactive basis or be reversed, depending on when it is determined that they are likely to vest, or in the case of a reversal when they are later determined to be unlikely to vest or forfeited.

Share-based compensation expense of $1,358 and $1,108 was recognized for the fiscal years ended January 1, 2022 and January 2, 2021, respectively. Fiscal year ended January 2, 2021 did not include any expense associated with performance-based awards. As of January 1, 2022, there were 125,000 performance-based restricted stock units outstanding.

As of January 1, 2022, the Company had $0.7 million of total unrecognized compensation cost related to all time-based non-vested share-based awards outstanding. The Company expects to recognize this expense over approximately two years. These amounts do not include a) the cost of any additional share-based awards granted in future periods or b) the impact of any potential changes in the Company's forfeiture rate.

2014 Omnibus Equity Compensation Plan (the 2014 Plan)

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

As of January 1, 2022, under the 2014 Plan, 420,628 time-based shares were outstanding, there were 125,000 performance-based restricted stock units outstanding and 107,924 shares were available for awards thereunder.

The market value of equity grants for the fifty-two week period ended January 1, 2022 and the fifty-three week period ended January 2, 2021 was $2.9 million and $1.5 million respectively. These amounts are based on the equity price on the last trading day in the period presented.

11. SHARE BASED COMPENSATION (CONTINUED)

Employee Stock Purchase Plan

The Company implemented the 2001 Employee Stock Purchase Plan (the "Purchase Plan") with shareholder approval, effective January 1, 2001. Under the Purchase Plan, employees meeting certain specific employment qualifications are eligible to participate and can purchase shares of common stock semi-annually through payroll deductions at the lower of 85% of the fair market value of the stock at the commencement or end of the offering period. The purchase plan permits eligible employees to purchase shares of common stock through payroll deductions for up to 10% of qualified compensation, subject to maximum purchases in any one fiscal year of 3,000 shares.

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. During the fiscal years ended January 1, 2022 and January 2, 2021, there were 101,784 and 117,983 shares issued under the Purchase Plan for net proceeds of $137 and $208, respectively. As of January 1, 2022, there were 448,110 shares available for issuance under the Purchase Plan. Compensation expense, representing the discount to the quoted market price, for the Purchase Plan for the fiscal years ended January 1, 2022 and January 2, 2021 was $134 and $44, respectively.

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.

On October 20, 2021, the Company's Board of Directors approved amendments to the Purchase Plan, subject to the approval of the Company's shareholders, to increase by an additional 400,000 the total number of shares of stock reserved for issuance or transfer under the Purchase Plan, and to extend the termination date of the Purchase Plan to December 31, 2030.

Time-Based Restricted Stock Awards / Stock Subscription Receivable

From time-to-time the Company issues time-based restricted stock awards. These time-based restricted stock awards typically include dividend accrual equivalents, which means that any dividends paid by the Company during the vesting period become due and payable after the vesting period assuming the grantee's restricted stock award fully vests. Dividends for these grants are accrued on the dividend payment dates and included in accounts payable and accrued expenses on the accompanying condensed consolidated balance sheet. As of January 1, 2022, there were no accrued dividends. Dividends for time-based restricted stock awards that ultimately do not vest are forfeited.

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

11. SHARE BASED COMPENSATION (CONTINUED)

Time-Based Restricted Stock Awards / Stock Subscription Receivable (Continued)

The following summarizes the activity in the time-based restricted stock awards under the 2014 Plan during the fifty-two week period ended January 1, 2022:

	Number of Time-Based Restricted Stock Awards	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at January 2, 2021	709,805	$1.92
Granted	163,005	$3.81
Vested	(452,182)	$1.89
Forfeited or expired	-	-
Outstanding non-vested at January 1, 2022	420,628	$2.69

Based on the closing price of the Company's common stock of $7.12 per share on December 31, 2021 (the last trading day prior to January 1, 2022), the intrinsic value of the time-based non-vested restricted stock units at January 1, 2022 was approximately $3.0 million. As of January 1, 2022, there was approximately $0.7 million 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 through fiscal 2024.

In December 2020, the Company granted members of senior management one-time restricted stock awards of an aggregate of 250,000 shares in exchange for a stock subscription receivable. The shares were acquired by senior management through repayment of the stock subscription receivable from equal biweekly salary reductions over twelve months beginning in January 2021 and ending in December 2021.

During the fifty-two week period ended January 1, 2022, the Company awarded 125,000 immediately vested share awards at an average price of $2.17. During fiscal 2020, the Company awarded 100,092 immediately vested share awards at an average price of $1.33.

Performance-Based Restricted Stock Awards

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 awards 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 condensed consolidated balance sheet. As of January 1, 2022, 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.

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

11. SHARE BASED COMPENSATION (CONTINUED)

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 fifty-two week period ended January 1, 2022:

	Number of Performance-Based Restricted Stock Awards	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at January 2, 2021	-	-
Granted	125,000	$3.26
Vested	-	-
Forfeited or expired	-	-
Outstanding non-vested at January 1, 2022	125,000	$3.26

As of January 1, 2022, there were 125,000 performance-based restricted stock units outstanding. The Company assesses at each reporting date whether achievement of any performance condition is probable and recognizes the expense when achievement of the performance condition becomes probable. The Company will then recognize the appropriate expense cumulatively in the year performance becomes probable and recognize the remaining compensation cost over the remaining requisite service period. If at a later measurement date the Company determines that performance-based restricted stock awards deemed as likely to vest are deemed as unlikely to vest, the expense recognized will be reversed.

The Company has estimated as of January 1, 2022 that the 125,000 performance-based stock units will be earned in fiscal 2021. The total expense recorded for the 125,000 performance-based stock units earned is $271.

	Number of Restricted Stock Awards	Weighted Average Grant Date Fair Value per Share
Outstanding non-vested at December 28, 2019	391,725	$4.36
Granted – time-based vesting	719,805	$1.88
Granted – performance-based vesting	-	-
Vested	(179,225)	$3.78
Forfeited or expired	(222,500)	$4.55
Outstanding non-vested at January 2, 2021	709,805	$1.92
Granted – time-based vesting	163,005	$3.81
Granted – performance-based vesting	125,000	$3.26
Vested	(452,182)	$1.89
Forfeited or expired	-	-
Outstanding non-vested at January 1, 2022	545,628	$2.82

Based on the closing price of the Company's common stock of $7.12 per share on December 31, 2021, the intrinsic value of all outstanding unvested equity awards at January 1, 2022 was $3.9 million.

12. TREASURY STOCK TRANSACTIONS

On January 13, 2021, the Company's Board of Directors authorized a program to repurchase shares of the Company's common stock constituting, in the aggregate, up to an amount not to exceed $7.5 million. All of these repurchases are conducted under the safe harbor from liability under certain market manipulation rules provided by Rule 10b-18 under the Securities Exchange act of 1934, as amended. On November 12, 2021, the Company's Board of Directors further increased the total amount available to repurchase shares up to an amount not to exceed $19.1 million (including the initial $7.5 million authorized), consistent with the maximum limitation set forth by the Company's revolving line of credit. The program is designed to provide the Company with enhanced flexibility over the long term to optimize its capital structure. Shares of the common stock may be repurchased in the open market or through negotiated transactions. The program may be terminated or suspended at any time at the discretion of the Company.

During the fifty-two week period ended January 1, 2022, the Company purchased 1,930,911 shares at an average price of $4.68 per share. As of January 1, 2022, the Company has $10.1 million available for future treasury stock purchases.

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 accrued 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 initially had a maturity date of August 10, 2023. On September 25, 2020, the Company repaid the subordinated promissory note in the amount of $2.2 million. The shares repurchased on June 2, 2020 were not purchased under a stock repurchase plan.

13. NEW ACCOUNTING STANDARDS

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326).* The new standard amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. In February 2020, the FASB issued ASU 2020-02, *Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842),* which amends the effective date of the original pronouncement for smaller reporting companies. ASU 2016-13 and its amendments will be effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2022. 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 London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued due to reference rate reform. This guidance provides temporary optional expedients and exceptions to accounting guidance on contract modifications and hedge accounting to ease entities' financial reporting burdens as the market transitions from the LIBOR and other interbank offered rates to alternative reference rates. 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.

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

14. SEGMENT INFORMATION

The Company follows ASC280, "Segment Reporting," which establishes standards for companies to report information about operating segments, geographic areas and major customers. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies (see Note 1 to the Company's Consolidated Financial Statements).

Segment operating income (loss) 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:

Fiscal Year Ended January 1, 2022	Engineering	Specialty Health Care	Information Technology	Corporate	Total
Revenue	$66,172	$98,495	$39,208	$ -	$203,875
Cost of services	50,109	73,177	27,465	-	150,751
Gross profit	16,063	25,318	11,743	-	53,124
Selling, general and administrative	14,210	19,490	8,319	-	42,019
Depreciation and amortization of property and equipment	521	373	113	-	1,007
Amortization of acquired intangible assets	95	-	-	-	95
Remeasurement of acquisition-related contingent consideration	(1,713)	-	-	-	(1,713)
Gain on sale of assets	(2,420)	-	-	-	(2,420)
Operating income (loss)	$5,370	$5,455	$3,331	$ -	$14,136
Total assets as of January 1, 2022	$28,343	$32,809	$8,676	$3,024	$72,852
Capital expenditures	$481	$563	$173	$359	$1,576

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

14. SEGMENT INFORMATION (CONTINUED)

Fiscal Year Ended January 2, 2021	Engineering	Specialty Health Care	Information Technology	Corporate	Total
Revenue	$57,715	$60,481	$32,213	$ -	$150,409
Cost of services	41,227	47,116	23,211	-	111,554
Gross profit	16,488	13,365	9,002	-	38,855
Selling, general and administrative	13,021	15,601	9,169	-	37,791
Depreciation and amortization of property and equipment	638	319	108	-	1,065
Amortization of acquired intangible assets	321	-	-	-	321
Write-off of receivables and professional fees incurred related to arbitration	8,397	-	-	-	8,397
Impairment of right of use assets and related costs	-	-	-	2,231	2,231
Operating income (loss)	($5,889)	($2,555)	($275)	($2,231)	($10,950)
Total assets as of January 2, 2021	$33,782	$19,141	$7,498	$7,918	$68,339
Capital expenditures	$26	$36	$48	$350	$460

The Company derives a majority of its revenue from offices in the United States. Revenues reported for each operating segment are all from external customers. The Company is domiciled in the United States and its segments operate in the United States, Canada, Puerto Rico and Serbia. Revenues by geographic area for the fiscal years ended January 1, 2022 and January 2, 2021 are as follows:

	Fiscal Year Ended	
	January 1, 2022	January 2, 2021
Revenues		
United States	$186,169	$126,238
Canada	9,578	15,310
Puerto Rico	5,237	5,702
Serbia	2,891	3,159
	$203,875	$150,409

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

14. SEGMENT INFORMATION (CONTINUED)

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

	Fiscal Year Ended	
	January 1, 2022	January 2, 2021
Total Assets		
United States	$67,296	$56,308
Canada	1,327	7,067
Puerto Rico	963	1,483
Serbia	3,266	3,481
	$72,852	$68,339

15. INCOME TAXES

Generally, the Company's relative income or loss generated in each of its jurisdictions can materially impact the consolidated effective income tax rate of the Company, particularly the ratio of Canadian and Serbian pretax income, versus United States pretax income. The consolidated effective income tax rate for fiscal 2021 was 21.0% as compared to 26.4% for the comparable prior year period. The Company's United States Federal statutory tax rate for the fifty-two week period ended January 1, 2022 and the comparable prior year period, before any adjustments, was 21.0%. The income tax provisions reconciled to the tax computed at the United States Federal statutory rate for both fiscal 2021 and 2020 are as follows:

	January 1, 2022	January 2, 2021
Federal statutory rate	21.0%	21.0%
Tax expense on taxable (loss) income at federal statutory rate	$2,922	($2,532)
State and Puerto Rico income taxes, net of Federal income tax benefit	519	(535)
Permanent differences domestic	(114)	154
Permanent differences foreign	(657)	-
Remeasurement of contingent consideration	(359)	-
Intangible asset deferred tax liability true-up	491	-
Foreign income tax rates	89	(21)
Adjustments to prior year federal taxes	46	(53)
Other	(12)	(201)
Total income tax expense	$2,925	($3,188)

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

15. INCOME TAXES (CONTINUED)

The components of income tax expense are as follows:

	Fiscal Years Ended	
	January 1, 2022	January 2, 2021
Current		
Federal	$47	($32)
State and local	45	174
Foreign	292	382
	384	524
Deferred		
Federal	2,152	(2,844)
State	612	(851)
Foreign	(223)	(17)
	2,541	(3,755)
Total	$2,925	($3,188)

The components of earnings before income taxes by United States and foreign jurisdictions were as follows:

	Fiscal Years Ended	
	January 1, 2022	January 2, 2021
United States	$10,880	($13,898)
Foreign jurisdictions	3,034	1,841
	$13,914	($12,057)

A reconciliation of the unrecognized tax benefits for the year January 1, 2022:

Unrecognized Tax Benefits	
Balance as of December 28, 2019	
Gross increases: tax positions in prior period	$ -
Gross increases: tax positions in current period	$ -
Balance as of January 2, 2021	$ -
Gross increases: tax positions in prior period	$ -
Gross increases: tax positions in current period	$1,196
Balance as of January 1, 2022	$1,196

The total amount of unrecognized tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits will not change during the next 12 months. However, changes in the occurrence, expected outcomes and timing of those events could cause the Company's current estimate to change materially in the future.

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

15. INCOME TAXES (CONTINUED)

The Company accounts for penalties or interest related to uncertain tax positions as part of its provision for income taxes and records such amounts to interest expense. The Company recorded no expense for penalties or interest in the fiscal years ended January 1, 2022 and January 2, 2021.

At January 1, 2022 and January 2, 2021, deferred tax assets and liabilities consist of the following:

	January 1, 2022	January 2, 2021
Deferred tax assets:		
Allowance for doubtful accounts	$297	$455
Federal and state net operating loss carryforward	1,153	2,634
Reserves and accruals	800	881
Lease liability	844	1,174
Other	314	318
Total deferred tax assets	3,408	5,462
Deferred tax liabilities:		
Acquisition amortization, net	(1,428)	(716)
Prepaid expense deferral	(552)	(602)
Bonus depreciation to be reversed	(392)	(280)
Right of use assets	(501)	(564)
Canada deferred tax liability, net	(142)	(365)
Total deferred tax liabilities	(3,015)	(2,527)
Total deferred tax assets (liabilities), net	$393	$2,935

The Company has gross net operating losses of $2.9 million and $8.6 million to be applied to the net income of future federal and state tax returns, respectively. The principal amount of the federal net operating loss has an unlimited life. The Company conducts business in many states. Net operating losses in these states expire at differing periods but the majority of these expire from 2038 through 2040.

The Company conducts its operations in multiple tax jurisdictions in the United States, Canada, Puerto Rico and Serbia. The Company and its subsidiaries file a consolidated United States Federal income tax return and file in various states. The Company's federal income tax returns have been examined through 2017. The Company has no open federal audits as of January 1, 2022. The Company is no longer subject to audits by state and local tax authorities for tax years prior to 2018. The Company is no longer subject to audit in Canada for the tax years prior to tax year 2017. The Company is no longer subject to audit in Puerto Rico for the tax years prior to tax year 2011. The Company has no open state audits as of January 1, 2022.

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.

16. CONTINGENCIES

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

As such, the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of losses and possible recoveries. The Company may not be covered by insurance as it pertains to some or all of these matters. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. The Company records a liability when management believes an adverse outcome from a loss contingency is both probable and the amount, or a range, can be reasonably estimated. From time to time, the Company must estimate the potential loss even though the party adverse to the Company has not asserted any specific amounts. Significant judgment is required to determine both probability of loss and the estimated amount. The Company reviews its loss contingencies at least quarterly and adjusts its accruals and/or disclosures to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, or other new information, as deemed necessary. Once established, a provision may change in the future due to new developments or changes in circumstances and could increase or decrease the Company's earnings in the period that the changes are made.

The Company is exposed to various asserted claims as of January 1, 2022, where the Company believes it has a probability of loss. Additionally, the Company is exposed to other asserted claims whereby an amount of loss has not been declared, and the Company cannot determine the potential loss. Any of these various claims could result in an unfavorable outcome or settlement that exceeds the accrued amounts. However, the Company believes that such matters will not, either individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. As of January 1, 2022, the Company has accrued $2.9 million for asserted claims. Included in the January 1, 2022 accrual of $2.9 million, the Company has reserved $1.6 million for the settlement of a class-action suit in California that alleges the Company did not properly pay its travel nurses overtime wages. While the Company believes it did not violate any overtime wage laws, it decided to settle this class action lawsuit in December 2020. The Company paid the $1.6 million settlement in early January 2022.

17. RETIREMENT PLANS

Profit Sharing Plans

The Company maintains a 401(k) profit sharing plan for the benefit of eligible employees in the United States and other similar plans in Canada, Puerto Rico and Serbia (the “Retirement Plans”). The 401(k) plan includes a cash or deferred arrangement pursuant to Section 401(k) of the Internal Revenue Code sponsored by the Company to provide eligible employees an opportunity to defer compensation and have such deferred amounts contributed to the 401(k) plan on a pre-tax basis, subject to certain limitations. The Company, at the discretion of the Board of Directors, may make contributions of cash to match deferrals of compensation by participants in the Retirement Plans. Contributions to the Retirement Plans charged to operations by the Company for the fiscal years ended January 1, 2022 and January 2, 2021 were $721 and $217, respectively.

18. COMMITMENTS

Executive Severance Agreements

The Company is a party to Executive Severance Agreement (the “Executive Severance Agreement”) each of Bradley S. Vizi, the Company's Executive Chairman and President (dated as of June 1, 2018), and Kevin Miller, the Company’s Chief Financial Officer (dated as of February 28, 2014, as amended), which set forth the terms and conditions of certain payments to be made by the Company to the executive in the event, while employed by the Company, such executive experiences (a) a termination of employment unrelated to a “Change in Control” (as defined therein) or (b) there occurs a Change in Control and either (i) the executive’s employment is terminated for a reason related to the Change in Control or (ii) in the case of Mr. Miller, the executive remains continuously employed with the Company for a period of three months following the Change in Control. Each Executive Severance Agreement also provide for certain payments, if either (a) the executive is involuntarily terminated by the Company for any reason other than “Cause” (as defined therein), “Disability” (as defined therein) or death, or (b) the executive resigns for “Good Reason” (as defined therein), and, in each case, the termination is not a “Termination Related to a Change in Control” (as defined therein).

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.

At January 1, 2021, in connection with the continuing developments from COVID-19, the Company reduced its leased office space as a result of its employees moving to a remote work environment. The Company does not believe there is an opportunity to sublet any of the vacant office space due to the current commercial rental marketplace. This decision and reduction in the use of the office spaces resulted in a right-of-use asset impairment of $1.9 million. This loss was determined by identifying the fair value of the impacted right-of-use assets as compared to the carrying value of the assets as of the measurement date, in accordance with *Property, Plant and Equipment* Topic of the FASB ASC. The fair value of the right-of-use assets was based on the remaining term of each lease. In addition, the Company wrote off a total of $0.3 million in other office lease costs and obsolete equipment.

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

18. COMMITMENTS (CONTINUED)

Leases (Continued)

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

The components of lease expense were as follows:

	Fifty-Two Week Period Ended January 1, 2022	Fifty-Three Week Period Ended January 2, 2021
Operating lease cost	$1,891	$2,524
Finance lease cost		
Amortization of right of use assets	$401	$366
Interest on lease liabilities	9	10
Total finance lease cost	$410	$376

Supplemental Cash Flow information related to leases was as follows:

	Fifty-Two Week Period Ended January 1, 2022	Fifty-Three Week Period Ended January 2, 2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$1,957	$2,589
Operating cash flows from finance leases	$9	$7
Financing cash flows from finance leases	$415	$402
Right of use assets obtained in exchange for lease obligations		
Operating leases	$830	$1,257
Finance leases	$1,002	$258

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

18. COMMITMENTS (CONTINUED)

Leases (Continued)

Supplemental Balance Sheet information as of January 1, 2022 related to leases was as follows:

	Fifty-Two Week Period Ended January 1, 2022	Fifty-Three Week Period Ended January 2, 2021
Operating leases		
Operating lease right of use assets	$1,877	$2,409
Operating right of use liability - current	($1,502)	($1,886)
Operating right of use liability - non-current	(1,631)	(2,641)
Total operating lease liabilities	($3,133)	($4,527)
Finance leases		
Property and equipment - (right of use assets)	$1,367	$1,140
Accumulated depreciation	(375)	(746)
Property and equipment, net	$992	$394
Finance lease liability - current	($437)	($247)
Finance lease liability - non-current	(502)	(106)
Total finance lease liabilities	($939)	($353)
Weighted average remaining lease term		
Operating leases	1.80 Years	2.03 Years
Finance leases	2.34 years	1.45 Years
Weighted average discount rate		
Operating leases	3.32 %	4.06 %
Finance leases	1.15 %	2.63 %

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

18. COMMITMENTS (CONTINUED)

Leases (Continued)

Maturities of lease liabilities are as follows:

Fiscal Year	Operating Leases	Finance Leases
2022	$1,579	$446
2023	1,097	337
2024	396	168
2025	133	-
Thereafter	50	-
Total lease payments	$3,255	$951
Less: imputed interest	(122)	(12)
Total	$3,133	$939

19. RELATED PARTY TRANSACTIONS

There have been no related party transactions during the time periods presented.

20. 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 entitled 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, at a purchase price of $5.60 per Unit.

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 did not meet the definition of a liability under generally accepted accounting principles in the United States and were therefore not accounted for as a long-term obligation. Accordingly, the Rights Plan had no impact on the Company's Consolidated Financial Statements.

The Rights expired in accordance with their terms on May 22, 2021 and the Rights Plan is no longer in effect.

21. 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 or reduced most of our office locations, with most of our workforce working from home, and have seen a reduction in customer demand. The duration and ultimate magnitude of the disruption remains uncertain. Therefore, we experienced a negative impact during fiscal 2020 and fiscal 2021, and this matter may continue to negatively impact our business, results of operations, and financial position throughout fiscal 2022 and possibly beyond, and the related financial impact cannot be reasonably estimated at this time.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
RCM Technologies, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of RCM Technologies, Inc. and Subsidiaries (the "Company") as of January 1, 2022 and January 2, 2021, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years ended January 1, 2022 and January 2, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 1, 2022 and January 2, 2021, and the results of its operations and its cash flows for the years ended January 1, 2022 and January 2, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate

Realizability of deferred tax assets

Description of the Matter

As discussed in Note 15 to the financial statements, the Company had gross deferred tax assets of $3.4 million, of which $1.2 million related to net operating loss carryforwards as of January 1, 2022, and a gross deferred tax liability of $3.0 million. The assessment of the realizability of these deferred tax assets is based on the Company's evaluation of available evidence to determine whether sufficient future taxable income will be generated to allow for the realization of such deferred tax assets. The Company records a valuation allowance to reduce its deferred tax assets to an amount that is more than 50% likely of being realized.

We identified the evaluation of the realizability of deferred tax assets as a critical audit matter. A high degree of auditor judgment was necessary to assess the evidence used by the Company to evaluate the realizability of deferred tax assets relating to the net operating loss carryforwards. Specifically, assessing the Company's determination of the reversal of existing taxable temporary differences, cumulative pre-tax losses and the relevance of such losses to forecasted future taxable income required subjective auditor judgment. In addition, specialized skills were required to evaluate the Company's application of income tax regulations.

How We Addressed the Matter in Our Audit

We evaluated the design and obtained an understanding of certain internal controls related to the Company's income tax process. This included controls related to the application of income tax regulations and the Company's consideration of available evidence to determine whether sufficient future taxable income will be generated to allow for the realization of existing deferred tax assets. We involved income tax professionals with specialized skills and knowledge, who assisted in evaluating the Company's application of income tax regulations used in its realizability analysis. This included evaluating the scheduling of the reversal of existing taxable temporary differences to assess the utilization of net operating loss carryforwards in each tax jurisdiction before their scheduled expiration. We evaluated the Company's consideration of cumulative pre-tax losses and the net deferred tax position in assessing whether deferred tax assets were more than 50% likely of being realized.

/s/ Macias, Gini & O'Connell LLP

We have served as the Company's auditor since 2019.

Macias, Gini & O'Connell, LLP
San Diego, California
Firm ID 324
April 4, 2022