RCM TECHNOLOGIES INC
Form 10-Q
August 11, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2010

OR

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

For the transition period from to

Commission file number: 1-10245

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

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

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

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

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

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

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

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

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

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

Common Stock, $0.05 par value, 13,005,985 shares outstanding as of August 11, 2010.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
July 3, 2010 and January 2, 2010
(In thousands, except share and per share amounts)

	July 3, 2010 (Unaudited)	January 2, 2010 (Revised – Note 1)
Current assets:		
Cash and cash equivalents	$18,916	$10,942
Accounts receivable, net	45,026	45,958
Prepaid expenses and other current assets	3,190	2,638
Deferred income tax assets	705	705
Assets of discontinued operations	4	672
Total current assets	67,841	60,915
Property and equipment, net	3,879	4,548
Other assets:		
Deposits	172	194
Goodwill	7,420	7,420
Intangible assets, net	394	464
Deferred income tax assets	3,828	3,828
Total other assets	11,814	11,906
Total assets	$83,534	$77,369
Current liabilities:		
Accounts payable and accrued expenses	$7,784	$6,933
Accrued payroll and related costs	8,183	6,410
Income taxes payable	230	-
Liabilities of discontinued operations	66	357
Total current liabilities	16,263	13,700
Contingent consideration	366	366
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; 12,999,178 issued and 12,970,213 outstanding at July 3, 2010 and 12,960,778 shares issued and outstanding at January 2, 2010	650	648
Additional paid-in capital	107,500	107,262
Accumulated other comprehensive income	1,252	1,267

Accumulated deficit	(42,383)	(45,874)
Treasury stock (28,965 shares, at net)	(114)	-
Total stockholders' equity	66,905	63,303
Total liabilities and stockholders' equity	$83,534	$77,369

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Thirteen and Twenty-Six Week Periods Ended July 3, 2010 and June 27, 2009
(Unaudited)
(In thousands, except per share amounts)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Revenues	$46,877	$46,381	$95,933	$93,039
Cost of services	33,965	34,759	70,329	70,848
Gross profit	12,912	11,622	25,604	22,191
Operating costs and expenses				
Selling, general and administrative	9,682	10,477	19,986	20,993
Depreciation and amortization	341	380	691	741
	10,023	10,857	20,677	21,734
Operating income	2,889	765	4,927	457
Other income (expense)				
Interest expense, net and other	(12)	(3)	(50)	(23)
Gain (loss) on foreign currency transactions	18	54	11	44
Legal settlement	-	-	-	9,750
	6	51	(39)	9,771
Income from continuing operations before income taxes	2,895	816	4,888	10,228
Income tax expense from continuing operations	1,177	206	765	3,972
Net income from continuing operations	1,718	610	4,123	6,256
Loss from discontinued operations, net of tax benefit	-	364	632	457
Net income	$1,718	$246	$3,491	$5,799
Basic net earnings per share data:				
Net income from continuing operations	$0.13	$0.05	$0.32	$0.49
Loss from discontinued operations, net of tax benefit	-	($0.03)	($0.05)	($0.04)
Net income	$0.13	$0.02	$0.27	$0.45
Diluted net earnings per share data:				

Net income from continuing operations	$0.13	$0.05	$0.31	$0.49
Loss from discontinued operations, net of tax benefit	-	($0.03)	($0.04)	($0.04)
Net income	$0.13	$0.02	$0.27	$0.45

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Twenty-Six Week Period Ended July 3, 2010
(Unaudited)
(In thousands, except share amounts)

	Common Stock		Additional	Accumulated Other		Treasury Stock		
	Outstanding Shares	Amount	Paid-in Capital	Comprehensive Income	Accumulated Deficit	Shares	Amount	Total
Balance, January 2, 2010	12,960,778	$648	$107,262	$1,267	($45,874)	-	$ -	$63,303
Issuance of stock under employee stock purchase plan	38,400	2	71	-	-	-	-	73
Translation adjustment	-	-	-	(15)	-	-	-	(15)
Stock based compensation expense	-	-	167	-	-	-	-	167
Common stock repurchase	(28,965)	-	-	-		28,965	(114)	(114)
Net income	-	-	-	-	3,491	-	-	3,491
Balance, July 3, 2010	12,970,213	$650	$107,500	$1,252	($42,383)	28,965	($114)	$66,905

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Twenty-Six Week Periods Ended July 3, 2010 and June 27, 2009
(Unaudited)
(In thousands)

	July 3,	June 27,
Twenty-Six Week Periods Ended	2010	2009

Net income	$3,491	$5,799
Foreign currency translation adjustment	(15)	335
Comprehensive income	$3,476	$6,134

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Twenty-Six Week Periods Ended July 3, 2010 and June 27, 2009
(Unaudited)
(In thousands)

	July 3, 2010	June 27, 2009
Cash flows from operating activities:		
Net income	$3,491	$5,799
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	719	785
Loss on disposal of fixed assets	269	-
Stock-based compensation expense	167	34
Provision for losses on accounts receivable	179	304
Deferred income tax expense	-	2,426
Changes in assets and liabilities:		
Accounts receivable	1,139	7,663
Prepaid expenses and other current assets	(743)	(328)
Accounts payable and accrued expenses	735	(1,439)
Accrued payroll and related costs	1,682	(1,153)
Income taxes payable	521	(544)
Total adjustments	4,668	7,748
Net cash provided by operating activities	8,159	13,547
Cash flows from investing activities:		
Property and equipment acquired	(28)	(522)
Decrease in deposits	40	40
Net cash provided by (used in) investing activities	12	(482)
Cash flows from financing activities:		
Sale of stock for employee stock purchase plan	73	37
Net repayments on line of credit	-	(4,900)
Common stock repurchases	(114)	-
Net cash used in financing activities	(41)	(4,863)
Effect of exchange rate changes on cash and cash equivalents	(156)	608
Increase in cash and cash equivalents	7,974	8,810
Cash and cash equivalents at beginning of period	10,942	815
Cash and cash equivalents at end of period	$18,916	$9,625
Supplemental cash flow information:		
Cash paid for:		
Interest	$62	$59
Income taxes	$1,028	$1,767

Non-cash investing activities relating to acquisition purchase price adjustment:		
Decrease goodwill	$840	$ -
Decrease accounts payable and accrued expenses	$313	$ -
Decrease contingent consideration	$527	$ -

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

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

1. Basis of Presentation

The accompanying consolidated interim financial statements of RCM Technologies, Inc. and subsidiaries ("RCM" or the "Company") are unaudited. The year-end consolidated balance sheet was derived from audited statements but does not include all disclosures required by accounting principles generally accepted in the United States. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the Company's consolidated financial statements and the notes thereto for the year ended January 2, 2010 included in the Company's Annual Report Form 10-K for such period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

Certain changes to prior year balance sheet amounts have been made in accordance with the accounting guidance for business combinations to reflect adjustments made during the measurement period. See Note 5 for additional information regarding these changes.

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

Results for the twenty-six week period ended July 3, 2010 are not necessarily indicative of results that may be expected for the full year.

In March 2010, the Company closed its Oracle business unit located in southern California. The closed business unit sold Oracle software applications and provided implementation, hosting and maintenance services for the suite of Oracle and related software applications. See Note 19 to the Consolidated Financial Statements included in this report for further details of this discontinued operation.

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 2, 2010 was a 53-week reporting year. The second fiscal quarter of 2010, the 2009 fiscal year and the second fiscal quarter of 2009 ended on the following dates, respectively:

Period Ended	Weeks in Quarter	Weeks in Year to Date
June 27, 2009	Thirteen	Twenty-Six
January 2, 2010	Thirteen	Fifty-Three
July 3, 2010	Thirteen	Twenty-Six

3. Use of Estimates and Uncertainties

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

The Company uses estimates to calculate an allowance for doubtful accounts on its accounts receivables. These estimates can be significant to the operating results and financial position of the Company.

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

3. Use of Estimates and Uncertainties (Continued)

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, approximates fair value due to their liquidity or their short-term nature. The Company does not have any off-balance sheet financial instruments. 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.

4. Accounts Receivable

The Company's accounts receivable are comprised as follows:

	July 3, 2010	January 2, 2010
Billed	$33,965	$37,099
Accrued and unbilled	2,727	2,160
Work-in-progress	9,710	7,887
Allowance for doubtful accounts and sales discounts	(1,376)	(1,188)
Accounts receivable, net	$45,026	$45,958

5. Acquisitions

General
In connection with certain acquisitions, the Company is obligated to pay future contingent consideration to the sellers upon the acquired business achieving certain earnings targets over periods ranging from two to four years following the acquisition. In general, the future contingent consideration amounts fall into one of two categories: (a) Deferred Consideration - fixed amounts due if the acquisition achieves a base level of earnings which has been determined at the time of acquisition and (b) Earnouts – amounts payable that are not fixed and are based on the growth in excess of the base level earnings.

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

5. Acquisitions (Continued)

Future Contingent Payments
The Company has two active acquisition agreements whereby future contingent consideration may be earned and paid (NuSoft and PSG, both as defined below, acquired in 2008 and 2009, respectively). Prior to December 2007 and the NuSoft acquisition, the Financial Accounting Standards Board ("FASB") issued "Business Combinations" which did not require that the estimated fair value of contingent consideration be recorded as a liability. The Company has not recorded any liability associated with the contingent consideration that may be paid in connection with its March 19, 2008 acquisition of the operating assets of NuSoft Solutions, Inc. ("NuSoft") as described in Note 4 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the fiscal year ended January 2, 2010. Prior to April 2009 and the Company's July 6, 2009 acquisition of the operating assets of Project Solutions Group, Inc. ("PSG"), FASB issued "Accounting for Assets Acquired and Liabilities Assumed in Business Combinations That Arise from Contingencies" which requires that the fair value of any future contingent consideration be recorded as a liability. The Company has determined that the estimated fair value of the total future contingent consideration (Deferred Consideration and Earnouts) associated with the PSG acquisition is approximately $0.4 million. The amount actually paid, if any, may substantially exceed the estimated fair value. The Company has recorded this liability and increased its goodwill by a like amount.

The Company's outstanding Deferred Consideration obligations potentially due after July 3, 2010, which relate to the NuSoft and PSG acquisitions, could result in the following maximum Deferred Consideration payments:

Year Ending	Amount
December 31, 2011	$944
December 29, 2012	164
December 28, 2013	184
Maximum deferred consideration	$1,292

The Company cannot estimate future Deferred Consideration payments with any certainty. However, the Company does not believe that the Deferred Consideration earned and payable in the year ended December 31, 2011 will exceed $144. Earnouts, if any, cannot be estimated with any certainty and as such are not included above. Any Earnouts paid, if any, are not likely to be material.

Project Solutions Group, Inc.
On July 6, 2009, the Company purchased the operating assets of PSG. PSG is a specialty provider of information technology services. PSG provides expert project management and training services to a diverse client base. PSG helps clients deploy Microsoft's project management tools to streamline and coordinate project-based initiatives across their organizations.

The acquisition was effective as of June 28, 2009 and has been accounted for in accordance with "Business Combinations" and "Accounting for Assets Acquired and Liabilities Assumed in Business Combinations that Arise from

Contingencies." Accordingly, the results of operations of the acquired company have been included in the consolidated results of operations of the Company from the effective date and are included in the Information Technology segment.

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

5. Acquisitions (Continued)

The PSG purchase consideration consisted of $0.5 million in cash and 100,000 shares of the Company's common stock, valued at $0.2 million. The fair value of the common shares issued was determined based on the closing market price of the Company's common stock on the last trading day prior to the effective date of the acquisition. Post closing consideration consists of potential Deferred Consideration payments up to $0.5 million and additional Earnout payments, both amounts are contingent upon PSG achieving certain base levels of operating income for certain post closing periods following the purchase. Additionally, the Company recorded a liability of approximately $0.4 million for the estimated net preset value of future contingent consideration potentially due in connection with the PSG acquisition. During 2010, the Company amended certain terms of the PSG purchase agreement which had the net effect of reducing a portion of the initial cash price and corresponding goodwill. Since this adjustment to the provisional amounts was identified during the measurement period, the Company recognized the adjustment as if the amendment for the business combination had been completed as of the acquisition date (i.e. via retrospective adjustment). Accordingly, liability accounts and goodwill were reduced by $840 as of both July 3, 2010 and January 2, 2010, the periods presented herein.
The effect of these transactions on the Company's consolidated financial statements is not material.

The acquisition has been accounted for under the purchase method of accounting. The purchase price paid of approximately $0.7 million has been allocated as follows:

Customer relationships	$253
Covenants-not-to-compete	38
Goodwill	415
	$706

Pro Forma Results of Operations
The following (unaudited) results of operations have been prepared assuming the PSG acquisition had occurred as of the beginning of the periods presented. Those results are not necessarily indicative of results of future operations or of results that would have occurred had the acquisition occurred as of the beginning of the periods presented.

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Revenues	$46,877	$47,675	$95,933	$95,627
Operating income from continuing operations	$2,889	$865	$4,927	$657
Net income from continuing operations	$1,718	$670	$4,123	$6,376
Diluted earnings per share from continuing operations	$0.13	$0.05	$0.31	$0.49

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

6. Property and Equipment

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

Property and equipment are comprised of the following:

	July 3, 2010	January 2, 2010
Equipment and furniture	$2,814	$2,943
Computers and systems	5,850	6,630
Leasehold improvements	1,073	1,169
	9,737	10,742
Less: accumulated depreciation and amortization	5,858	6,194
Property and equipment, net	$3,879	$4,548

7. New Accounting Standards

In October 2009, FASB issued “Revenue Arrangements with Multiple Deliverables.” This statement provides principles for allocating sales consideration among multiple-element revenue arrangements with an entity’s customers, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. This update introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. The Company adopted this standard in 2010.

8. Line of Credit

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

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as restrictions on the Company's ability to pay dividends. The Revolving Credit Facility expires in August 2011.

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

8. Line of Credit (Continued)

There were no borrowings during the twenty-six week period ended July 3, 2010. During the twenty-six week period ended June 27, 2009, the Company’s outstanding borrowings ranged from $-0- million to $4.9 million. The majority of borrowings in 2009 were subject to alternative (i) LIBOR (London Interbank Offered Rate), plus applicable margin on contracts of 30 days or more. The weighted average interest rate under the Revolving Credit Facility for the twenty-six week period ended June 27, 2009 was 2.2%. At July 3, 2010 and January 2, 2010, there were letters of credit outstanding for $2.4 million and $1.6 million, respectively. At July 3, 2010, the Company had availability for additional borrowings under the Revolving Credit Facility of $12.6 million.

9. Goodwill

The Company is required to perform a goodwill impairment test on at least an annual basis. Application of the goodwill impairment test requires significant judgments, including estimation of future cash flows, which are dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of the Company’s weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducts its annual goodwill impairment test as of the last day of the Company's fiscal November each year, or more frequently if indicators of impairment exist. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill. There were no triggering events during the twenty-six week period ended July 3, 2010 that indicated a need to perform the impairment test prior to the Company's annual test date.

During 2010, goodwill related to the acquisition of PSG decreased by $840 for net adjustments made during the measurement period. These retrospective adjustments are reflected in the net goodwill at January 2, 2010, in accordance with the accounting guidance for business combinations.

10. 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 following table reflects the components of intangible assets, excluding goodwill:

	Information Technology	Engineering	Commercial	Total
Balance as of January 2, 2010	$420	$44	$ -	$464
Amortization of intangibles during the twenty-six week period ended July 3, 2010	53	17	-	70

Balance as of July 3, 2010	$367	$27	$ -	$394

12

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

11. Stockholders' Equity

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

	July 3, 2010	January 2, 2010
Exercise of options outstanding	1,542,094	1,564,594
Future grants of options or shares	411,100	426,100
Shares reserved for employee stock purchase plan	356,136	394,536
Total	2,309,330	2,385,230

12. Earnings Per Share

Both basic and diluted earnings (loss) per share for all periods are calculated based on the reported earnings in the Company's consolidated statements of operations.

The number of common shares used to calculate basic and diluted (loss) earnings per share for the thirteen and twenty-six week periods ended July 3, 2010 and June 27, 2009 was determined as follows:

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Basic				
Weighted average shares outstanding	12,984,539	12,813,522	12,991,859	12,813,522
Diluted				
Shares used for basic calculation	12,984,539	12,813,522	12,991,859	12,813,522
Dilutive effect of options granted under the Company's stock option plans	164,613	1,307	104,176	-
	13,149,152	12,814,829	13,096,035	12,813,522

13. Share - Based Compensation

At July 3, 2010, the Company had five share-based employee compensation plans. The Company measures the fair value of stock options, if and when granted, based upon the Black-Scholes pricing model. Grants vest over periods ranging from one to three years and expire within 10 years of issuance. Stock options that vest in accordance with service conditions amortize over their applicable vesting period using the straight-line method.