

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

RCM TECHNOLOGIES INC
Form 10-K
March 22, 2007

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 December 30, 2006
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 of Incorporation IRS Employer Identification No.

2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613
Address of principal executive offices
Registrant's telephone number, including area code: (856) 486-1777
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None
Securities registered pursuant to Section 12(g) of the Act:	
Common Stock, par value \$.05	
(Title of Class)	

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES X NO__

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

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer X

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$56,932,000 based upon the closing price of \$5.02 per share of the registrant's common stock on July 1, 2006 on The NASDAQ Global Market. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from the figure is an affiliate or that any person whose holdings are included is not an affiliate and any such admission is hereby disclaimed. The information provided is included solely for record keeping purposes of the Securities and Exchange Commission.

The number of shares of registrant's common stock (par value \$0.05 per share) outstanding as of March 21, 2007: 11,894,126.

Documents Incorporated by Reference

Portions of the definitive proxy statement for the registrant's 2007 Annual Meeting of Stockholders (the "2007 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 2007 Proxy Statement is not filed by April 29, 2007, 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

Item 1. Business.....
Item 1A. Risk Factors
Item 1B. Unresolved Staff Comments.....

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Item 2. Properties.....
Item 3. Legal Proceedings.....
Item 4. Submission of Matters to a Vote of Security Holders.....

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issue
Equity Securities.....
Item 6. Selected Financial Data.....
Item 7. Management's Discussion and Analysis of Financial Condition and Results of O
Item 7A. Quantitative and Qualitative Disclosures about Market Risk.....
Item 8. Financial Statements and Supplementary Data.....
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Di
Item 9A. Controls and Procedures.....
Item 9B. Other Information.....

PART III

Item 10. Directors, Executive Officers and Corporate Governance.....
Item 11. Executive Compensation.....
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related S
Matters.....
Item 13. Certain Relationships and Related Transactions, and Director Independence...
Item 14. Principal Accountant Fees and Services.....

PART IV

Item 15. Exhibits and Financial Statement Schedules.....
Signatures.....

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; and the outcome of litigation (at both the trial and appellate levels) involving the Company. Readers are cautioned that such forward-looking statements, as well as others made by the Company, which may be identified by words such as "may," "will," "expect," "anticipate," "continue," "estimate,"

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

"project," "intend," "believe," and similar expressions, are only predictions and are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially from such statements. Such risks and uncertainties include, without limitation: (i) unemployment and general economic conditions affecting the provision of information technology and engineering services and solutions and the placement of temporary staffing personnel; (ii) the Company's ability to continue to attract, train and retain personnel qualified to meet the requirements of its clients; (iii) the Company's ability to identify appropriate acquisition candidates, complete such acquisitions and successfully integrate acquired businesses; (iv) uncertainties regarding pro forma financial information and the underlying assumptions relating to acquisitions and acquired businesses; (v) uncertainties regarding amounts of deferred consideration and earnout payments to become payable to former shareholders of acquired businesses; (vi) adverse effects on the market price of the Company's common stock due to the potential resale into the market of significant amounts of common stock; (vii) 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; (viii) the Company's ability to obtain financing on satisfactory terms; (ix) the reliance of the Company upon the continued service of its executive officers; (x) the Company's ability to remain competitive in the markets that it serves; (xi) the Company's ability to maintain its unemployment insurance premiums and workers compensation premiums; (xii) the risk of claims being made against the Company associated with providing temporary staffing services; (xiii) the Company's ability to manage significant amounts of information and periodically expand and upgrade its information processing capabilities; (xiv) the Company's ability to remain in compliance with federal and state wage and hour laws and regulations; (xv) uncertainties in predictions as to the future need for the Company's services; (xvi) uncertainties relating to the allocation of costs and expenses to each of the Company's operating segments; (xvii) the costs of conducting and the outcome of litigation involving the Company, and (xviii) other economic, competitive and governmental factors affecting the Company's operations, markets, products and services. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. 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.

1

ITEM 1. BUSINESS

General

RCM is a premier provider of business and technology solutions designed to enhance and maximize the operational performance of its customers through the adaptation and deployment of advanced information technology and engineering services. RCM has been an innovative leader in the design, development, and delivery of these services to commercial and government sectors for more than 35 years. The Company provides a diversified and extensive range of service

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

offerings and deliverables. The Company's Information Technology, or IT, segment provides e-commerce, enterprise management, application lifecycle management, regulatory compliance solutions and selected vertical market specific offerings. RCM's Engineering segment provides engineering design, technical support, and project management and implementation services. The Company's Commercial Services segment provides health care contract professionals as well as clerical and light industrial temporary personnel.

The Company serves clients in a variety of industries including those in the financial services, aerospace, healthcare, pharmaceutical, utility, technology, manufacturing, distribution, and government sectors. The Company believes it offers a range of solutions that fosters long-term client relationships, affords cross-selling opportunities, and minimizes the Company's dependence on any single technology or industry sector. RCM sells and delivers its services through a network of 33 branch offices located in selected regions throughout North America.

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

During the year ended December 30, 2006, approximately 50.2% of RCM's total revenues were derived from IT services, 28.5% from Engineering services, and the remaining 21.3% from Commercial services.

Demand for the Company's services can be significantly impacted by changes in the general level of economic activity and particularly technology spending. During periods of reduced economic activity, the Company may also be subject to increased competition and pricing pressure in its markets. Extended periods of weakness in the economy can have a material adverse impact on the Company's business and results of operations.

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.

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

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

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

and applications of significant strategic value, while working under budgetary, personnel and expertise constraints within their own organizations.

2

ITEM 1. BUSINESS (CONTINUED)

Industry Overview (Continued)

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

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

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

Meanwhile, improvement in the general economy of the United States over the past couple of years has positively affected temporary staffing businesses who are providers of light industrial and clerical help. Generally, demand for lower-skilled workers is stronger in the earlier stages of an economic cycle. As the economic recovery reaches a certain level of maturity, demand for lower-skilled temporary help tends to diminish.

Business Strategy

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

ITEM 1. BUSINESS (CONTINUED)

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 selectively to build projects and solutions offerings, which utilize its extensive resource base.

The Company believes that the effective execution of this strategy will generate improved margins on the existing resources. The completion of this service-offering continuum will afford the Company the opportunity to strengthen long-term client relationships that will further contribute to the quality of earnings.

In addition to a full life cycle solution offering, the Company will continue to focus on transitioning into higher value oriented services to increase its margins on its various service lines and generate revenue that is more predictable. The Company believes this can be accomplished by pursuing additional vertical market specific solutions in conjunction or combination with longer-term based solutions. The Company will seek to accomplish this through expansion of its client relationships while at the same time pursuing strategic alliances and partnerships.

Achieve Respectable Internal Growth

The Company continues to evolve its internal growth strategies. Its growth strategy is designed to serve better the Company's customers, generate higher revenues, and achieve greater operating efficiencies. National and regional sales management programs were designed and implemented to segregate clients by vertical market and national accounts to advance our value added services focus. This process is improving account coordination so clients can benefit from deeper industry knowledge as well as maximizing our major account opportunities.

RCM provides a company 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 recognizes 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.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

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 will facilitate the flow of project opportunities and the delivery of project-based solutions.

4

ITEM 1. BUSINESS (CONTINUED)

Growth Strategy (Continued)

Continue Selective Strategic Acquisitions

The industry in which the Company operates continues to be highly fragmented, and the Company plans to continue to selectively assess opportunities to make strategic acquisitions as such opportunities are presented to the Company. The Company's past acquisition strategy was designed to broaden the scope of services and technical competencies and grow its full life cycle solution capabilities, and the Company would continue to consider such goals in any future acquisitions. In considering acquisitions, the Company focuses principally on companies with (i) technologies or market segments RCM has targeted for strategic value enhancement, (ii) margins that will not dilute the margins now being delivered, (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 three-year period.

Operating Strategy

Foster a Decentralized Entrepreneurial Environment

A key element of the Company's operating strategy is to foster a decentralized, entrepreneurial environment for its employees. The Company fosters this environment by continuing to build on local market knowledge of each branch's reputation, customer relationships, and expertise. The Company believes an entrepreneurial business atmosphere allows its branch offices to respond quickly and creatively to local market demands and enhances the Company's ability to motivate, attract, and retain managers and to maximize growth and profitability.

Develop and Maintain Strong Customer Relationships

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

To develop close customer relationships, the Company's practice managers regularly meet with both existing and prospective clients to help design solutions and identify the resources needed to execute their strategies. The Company's managers also maintain close communications with their customers during each project and on an ongoing basis after its completion. The Company believes that this relationship-oriented approach can result in greater customer satisfaction. Additionally, the Company believes that by collaborating with its customers in designing business solutions, it can generate new opportunities to

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

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 our 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 qualified consultants and contractors by (i) providing stimulating and challenging work assignments, (ii) offering competitive wages, (iii) effectively communicating with its candidates, (iv) providing 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 while they are on assignment.

5

ITEM 1. BUSINESS (CONTINUED)

Operating Strategy (Continued)

Centralize Administrative Functions

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

To accomplish this, the Company's financial reporting and accounting systems are centralized in the Company's operational headquarters in Parsippany, NJ. During 2004, the Company upgraded the back office operations to include increased functionality as well as business continuity planning. The systems have been configured to allow the performance of all back office functions, including payroll, project management, project cost accounting, billing, human resource administration and financial reporting and consolidation. The Company believes that this configuration provides a robust and highly scalable platform from which to manage daily operations, and has the capacity to accommodate increased usage.

Information Technology

The Company's IT segment offers responsive, timely, and comprehensive business and information technology consulting and solutions to support the entire systems applications development and implementation process. The Company's information technology professionals have expertise in a variety of technical disciplines, including e-business development, application development and integration, software quality management, regulatory compliance, network communications, knowledge management and support of client applications.

The Company has a wide array of service offerings and deliverables within this spectrum. Within its e-business offering, RCM delivers web strategies, web enablement of client applications, e-commerce solutions, Intranet solutions, corporate portals, and complete web sites. Within its business intelligence

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

practice, RCM provides data architecture design, data warehousing, knowledge management, customer relationship management, and supply chain management solutions. In its enterprise applications area, RCM delivers both custom and packaged software product solutions, implementation, infrastructure support, hosting and integration services, and an array of post-implementation support services. In its enterprise application integration work, the Company integrates diverse but related enterprise applications into unified, cohesive operating environments. The Company believes that its ability to deliver information technology solutions across a wide range of technical platforms provides an important competitive advantage.

The Company also ensures that its consultants have the expertise and skills needed to keep pace with rapidly evolving information technologies. The Company's strategy is to maintain expertise and acquire knowledge in multiple technologies so it can offer its clients non-biased technology solutions best suited to their business needs.

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

As of December 30, 2006, the Company had assigned approximately 720 information technology employees and consultants to its customers.

6

ITEM 1. BUSINESS (CONTINUED)

Engineering

The Company's Engineering segment provides personnel to perform project engineering, computer aided design, and other managed task technical services either at the site of the customer or, less frequently, at the Company's own facilities. Representative services include utilities process and control, electrical engineering design, system engineering design and analysis, mechanical engineering design, procurement engineering, civil structural engineering design, computer aided design and code compliance. The Engineering segment has developed an expertise in providing engineering, design, and technical services to many customers in the aeronautical, paper products manufacturing and nuclear power, fossil fuel and electric utilities industries.

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

The Company provides its engineering services through a number of delivery

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

methods. These include managed tasks and resources, complete project services, outsourcing, both on and off-site, and a full complement of resourcing alternatives.

As of December 30, 2006, the Company had assigned approximately 462 engineering and technical employees and consultants to its customers.

Commercial

The Company's Commercial Services segment consists of the Specialty Health Care and General Support Services groups.

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

The Company's General Support Services Group provides contract and temporary services, as well as permanent placement services, for full-time and part-time personnel in a variety of functional areas, including office, clerical, data entry, secretarial, light industrial, shipping, receiving, and general warehouse. Contract and temporary assignments range in length from less than one day to several weeks or months.

As of December 30, 2006, the Company had assigned approximately 1,120 commercial services personnel to its customers.

7

ITEM 1. BUSINESS (CONTINUED)

Branch Offices

The Company's organization consists of six operating regions with 33 branch offices located in the United States, Puerto Rico, and Canada. The regions and services provided by each of the branch offices are set forth in the table below.

REGION	NUMBER OF OFFICES	SERVICES PROVIDED (1)

EAST		
Connecticut	2	E
Maryland	1	IT
Massachusetts	1	IT
New Jersey	2	IT, E
New York	3	IT, E, C
Pennsylvania	1	C
Rhode Island	1	E
	-	
	11	
GREAT LAKES		

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Michigan	3	IT, E
Minnesota	1	IT
Missouri	1	IT
Wisconsin	3	IT, E
	-	
	8	
CENTRAL		
Texas	2	IT
	-	
	2	
WEST		
Northern California	1	IT
Southern California	7	IT, C
	-	
	8	
PUERTO RICO	1	IT
CANADA	3	IT, E

(1) Services provided are abbreviated as follows: IT - Information Technology E - Engineering C - Commercial

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

8

ITEM 1. BUSINESS (CONTINUED)

Branch Offices (Continued)

The Company is domiciled in the United States and its segments operate in the United States and Canada. Revenues and Definite-Long Lived Assets by geographic area for the year ended and as of December 30, 2006 are as follows (in thousands):

	Revenues	Goodwill	Definite Lived Assets
United States	\$190,644	\$34,532	\$669
Canada	11,276	4,797	-
	\$201,920	\$39,329	\$669

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

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

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

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

Sales and Marketing

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

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

ITEM 1. BUSINESS (CONTINUED)

Sales and Marketing (Continued)

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

The Company's larger representative customers include 3M, ADP, Ameriquest, BancTec, Inc., Bristol Myers Squibb, Bruce Power L.P, Countrywide Home Loans, Entergy, FlightSafety International, MSC Industrial Supply, Ontario Power Generation, Schering Plough, United Technologies, and Wells Fargo. 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 or, when appropriate, at the corporate level for national accounts.

During 2006, United Technologies accounted for 11.4% of the Company's revenues. No other customer accounted for 10% or more of the Company's revenues. The Company's five and ten largest customers accounted for approximately 25.2% and 34.6%, respectively, of the Company's revenues for 2006.

Recruiting and Training

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

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

Information Systems

The Company has invested, and is continuing to invest, in its current ERP installation. During 2004, the Company upgraded the hardware, operating system, and ERP software to accommodate its growing needs. The ERP system resides on a Windows 2003 enterprise server operating system and is housed on multi redundant Dell PowerEdge servers. The branch offices of the Company are networked to the corporate offices via AT&T-managed VPN enabling the ERP application to be accessed securely at all operational locations. The ERP system supports Company-wide operations such as payroll, billing, human resources, project systems, accounts receivable, accounts payable, all general ledger accounting and consolidation reporting functionality.

The Company also maintains a unified front end system. This system consists of two elements: the PCR system and the Microsoft CRM system. The PCR system manages candidate information in a skills based database, work order flows, and recruiting reporting on a national basis. The PCR application is housed on a Dell PowerEdge 1750 with a RAID 5 disk configuration. The database in which the PCR information is stored is Microsoft SQL 2000 (SP 3A). The web based system, provided by Main Sequence, Inc., is customized to RCM's business requirements and is hosted and maintained at the Company's data center. Each of the service groups maintains databases to permit efficient tracking of available personnel on a local basis. This system facilitates efficient matching of customers' requirements with available technical personnel.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

The Microsoft CRM system manages the business sales funnel, which includes customer contacts, single sales objectives, contact management functionality for the sales force, and sales reporting on a national basis. The system is housed on a Dell PowerEdge 1750 with a multi hardware redundant configuration. The OS is Windows 2003 and the database engine is Microsoft SQL 2000 (SP 3A). The web based system, provided by Microsoft, has minor customization and is hosted and maintained at the Company's headquarters.

10

ITEM 1. BUSINESS (CONTINUED)

Information Systems (Continued)

The Company also has Autotime, an automated time and attendance system, which augments the ERP application by catering to the needs of its diverse business offerings and distributed workforce. The system is housed on a three-tiered architecture on DELL PowerEdge 1800 servers and is currently deployed in the Canadian division.

Other Information

Safeguards - Business, Disaster and Contingency Planning

RCM has implemented a number of safeguards to protect the Company from various system-related risks including a warm data center disaster recovery site, redundant telecommunications and server systems architecture, multi-tiered server and desktop backup infrastructure, and data center physical and environmental controls. In addition, RCM has developed disaster recovery / business continuity procedures for all offices, and is in the process of documenting application support frameworks for all business critical applications.

Given the significant amount of data generated in the Company's key processes including recruiting, sales, payroll and customer invoicing, RCM has established redundant procedures, functioning on a daily basis, within the Company's primary data center. This redundancy mitigates the risks related to hardware application and data loss by utilizing the concept of live differential backups of servers and desktops to Storage Area (SAN) devices on its backup LAN, culminating in offsite 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 provided by AT&T for RCM's managed firewall, VPN and data circuits guarantees minimal outages as well as network redundancy and scalability. The Disaster Recovery site, located at the corporate office in Pennsauken, provides WAN, ERP and messaging redundancy services should the primary data center facility at Parsippany become inoperable.

The Company's ability to protect its data assets against damage from fire, power loss, telecommunications failures, and facility violations is critical. The Company uses Postini mail management service to filter all emails destined for the RCMT domain before being delivered to the corporate mail server. The deployment of virus, spam, and patch management controls extends from the email gateway to all desktops and is centrally monitored and managed. In addition to

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

the standard virus and malware controls, an Intrusion Protection System (IPS) monitors and alerts on changes in network traffic patterns as well as known hostile signatures.

Finally, the Company maintains a comprehensive disaster recovery plan that outlines the recovery organization structure, roles and procedures, including site addendum disaster plans for all of its key operating offices. Corporate IT personnel regulate the maintenance and integrity of backed-up data throughout the Company.

Competition

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

11

ITEM 1. BUSINESS (CONTINUED)

Competition (Continued)

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

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

Seasonality

The timing of certain holidays, weather conditions, and seasonal vacation patterns can cause the Company's results of operations to fluctuate. The Company generally expects to realize higher revenues, operating income, and net income during the second and third quarters and relatively lower revenues, operating income, and net income during the first and fourth quarters.

Employees

As of December 30, 2006, the Company employed an administrative staff of approximately 232 people, including certified IT specialists and licensed engineers who, from time to time, participate in IT and engineering design projects undertaken by the Company. As of December 30, 2006, there were approximately 720 information technology and 462 engineering and technical employees and consultants assigned by the Company to work on client projects for

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

various periods. As of December 30, 2006, there were approximately 1,120 commercial services employees and consultants. None of the Company's employees is represented by a collective bargaining agreement. The Company considers its relationship with its employees to be good.

Access to Company Information

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

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

RCM has adopted a Code of Conduct applicable to all of its directors, officers and employees. In addition, the Company has adopted a Code of Ethics, within the meaning of applicable SEC rules, applicable to its Chief Executive Officer, Chief Financial Officer and Controller. Both the Code of Conduct and Code of Ethics are available on the Company's website and are further available, free of charge, by sending a written request to the Company's Corporate Secretary. If the Company makes any amendments to either of these Codes (other than technical, administrative, or other non-substantive amendments), or waive (explicitly or implicitly) any provision of the Code of Ethics to the benefit of our 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 that filed with the SEC.

12

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. Management believes that the most significant of these risks and uncertainties are as follows:

Economic Trends

The Company's growth and earnings 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 temporary and permanent employees. The Company believes that its fiscal discipline and strategic focus on targeted vertical markets provides some insulation from adverse trends.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

However, further declines in the economy would adversely affect the Company's operating performance and could result in the need for future cost reductions or changes in strategy.

Government Regulations

Changes in government regulations could result in prohibition or restriction of certain types of employment services or the imposition of new or additional benefits, licensing or tax requirements with respect to the provision of employment services that may reduce RCM's future earnings.

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.

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 our services based upon past relationships with local managers and field personnel, which could cause future revenues to decline in that event.

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. While management believes that its assumptions and estimates are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's future financial results.

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

The Company may be subject to possible claims by our 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 our temporary professionals. There can be no assurance that our 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.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

ITEM 1A. RISK FACTORS (CONTINUED)

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

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

Integration of Acquisitions

The Company reviews prospective acquisitions as an element of its growth strategy. The failure to successfully integrate any future acquisition may divert management's attention from its core operations or could negatively affect the Company's ability to meet the needs of its customers promptly.

Goodwill and Intangible Impairments May Have an Adverse Effect on our Results of Operations

The Company recorded a write down of \$2.2 million in 2004 related to impairment of goodwill. As of December 30, 2006, we had \$40.0 million of goodwill and intangible assets on our balance sheet, which represents 40.0% of our total assets. This amount primarily represents the remaining excess of the total purchase price of our acquisitions over the fair value of the net assets acquired. If we are required to further write down goodwill, the related charge could materially reduce reported net income or result in a net loss for the period in which the write down occurs.

Foreign Currency Fluctuations and Changes in Exchange Rates

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

Litigation

The Company is currently, and may in the future become, involved in legal proceedings and claims arising from time to time in the course of its business, including the litigation described in Note 15 (Contingencies) to the financial statements. An adverse outcome to the referenced litigation or other cases arising in the future could have an adverse impact on the financial position and results of operations of the Company.

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 a managed solution from AT&T, which encompasses redundancy, with the incorporation of shadow circuits and backup devices, and diversity, with circuits provisioned from different geographical locations and high availability failover VPN tunnels across locations.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

RCM's ability to protect its data centers against damage from fire, power loss, telecommunications failure and other disasters is critical. 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 RCM's ability to meet its customers' needs and their confidence in utilizing RCM for future services.

14

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company provides specialty professional consulting services, principally performed at various client locations, through 33 administrative and sales offices located in the United States, Puerto Rico, and Canada. The Company's offices typically consist of 1,000 to 5,000 square feet and are leased by the Company for terms of one to three years. Offices in larger or smaller markets may vary in size from the typical office. The Company does not expect that it will be difficult to maintain or find suitable lease space at reasonable rates in its markets or in areas where the Company contemplates expansion.

The Company's executive office is located at 2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613. These premises consist of approximately 10,200 square feet and are leased at a rate of \$13.03 per square foot per annum for terms ending on December 31, 2006 and January 31, 2011.

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

ITEM 3. LEGAL PROCEEDINGS

See discussion of Legal Proceedings in Note 15 (Contingencies) to the consolidated financial statements included in Item 8 of this Report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the quarter ended December 30, 2006.

15

PART II

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

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

Shares of the Company's common stock are traded on The NASDAQ Global Market under the Symbol "RCMT". The following table sets forth approximate high and low sales prices for the two years in the period ended December 30, 2006 as reported by The NASDAQ Global Market:

Common Stock		
Fiscal 2005	High	Low
First Quarter	\$5.39	\$4.26
Second Quarter	5.00	3.96
Third Quarter	7.99	4.20
Fourth Quarter	\$7.47	\$4.86
Fiscal 2006		
First Quarter	\$6.50	\$4.91
Second Quarter	6.73	4.59
Third Quarter	5.90	4.48
Fourth Quarter	\$6.75	\$4.90

Holder

As of March 20, 2007, the approximate number of holders of record of the Company's Common Stock was 533. Based upon the requests for proxy information in connection with the Company's most recent Annual Meeting of Stockholders, the Company believes the number of beneficial owners of its Common Stock is approximately 1,973.

Dividends

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

Unregistered Sales of Equity Securities

On October 17, 2005, RCM issued 100,000 shares of its common stock, par value \$0.05 (the "Shares") at an aggregate offering price of \$632,000, to the former holders of all the issued and outstanding stock of Soltre, Inc. as part of the consideration for the acquisition of Soltre, Inc. See Financial Statement Note No. 2. The issuance of the Shares was made in reliance on an exemption from registration of the Shares under Rule 506 of Regulation D ("Regulation D") promulgated under Section 5 of the Securities Act of 1933, as amended (the "Act"). Each holder of the Shares is an "accredited investor," as such term is defined in Regulation D. Each holder of the Shares has represented that he or she will not sell, transfer, or otherwise dispose of the Shares unless the Shares are registered under the Act or unless an exemption from registration is available under applicable federal and state securities law. Each certificate

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

representing the Shares contains a restrictive legend stating that the Shares have not been registered under the Act and may not be sold, transferred or otherwise disposed of unless registered under the Act or exempt from registration under applicable federal and state securities law.

16

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

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURNS

The graph below is presented in accordance with SEC requirements. You should not draw any conclusions from the data in the graph, because past results do not necessarily predict future stock price performance. The graph does not represent our forecast of future stock price performance.

The graph below matches the cumulative 5-year total return of holders of RCM Technologies, Inc.'s common stock with the cumulative total returns of the NASDAQ Composite index, and a customized peer group of four companies that includes: Butler International, Kelly Services Inc, MPS Group Inc and Spherion Corp. The graph assumes that the value of the investment in the company's common stock, in the peer group, and the index (including reinvestment of dividends) was \$100 on 12/31/2001 and tracks it through 12/31/2006.

Total Return Analysis	2001	2002	2003	2004	2005
RCM Technologies, Inc	\$100.0	\$83.19	\$156.83	\$107.04	\$108.5
Nasdaq Stock Market (U.S.)	\$100.0	\$71.97	\$107.18	\$117.07	\$120.5
Peer Group	\$100.0	\$87.32	\$123.17	\$139.56	\$145.0

17

ITEM 6. SELECTED FINANCIAL DATA

The selected historical consolidated financial data was derived from the Company's Consolidated Financial Statements. The selected historical consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

the Consolidated Financial Statements of the Company, and notes thereto, included elsewhere herein.

	Years Ended		
	December 30,	December 31,	January 1,
	2006	2005	2005 (2)
Income Statement			
Revenues	\$201,920,059	\$180,618,164	\$169,277,490
Gross profit	50,508,372	42,682,532	40,973,845
Income before the charges listed below	7,622,139	3,593,086	4,412,205
Amortization, net of tax	(310,354)	(57,000)	(41,000)
Goodwill impairment, net of tax			(2,164,338)
Unusual items, net of tax			
Stock based compensation, net of tax	(955,522)	-	-
Income (loss) from continuing operations	6,356,263	3,536,086	2,206,867
Loss from discontinued operations			
Net income (loss)	\$6,356,263	\$3,536,086	\$2,206,867
Earnings Per Share (1)			
Income (loss) from continuing operations - Diluted	\$.53	\$.30	\$.19
Loss from discontinued operations	-	-	-
Net income (loss):			
Basic	\$.54	\$.31	\$.19
Diluted	\$.53	\$.30	\$.19
	December 30,	December 31,	January 1,
	2006	2005	2005 (2)
Balance Sheet			
Working capital	\$38,844,329	\$33,032,366	\$29,544,955
Total assets	100,040,056	106,772,702	99,388,087
Long term liabilities	-	-	-
Total liabilities	16,646,794	31,084,077	29,443,051
Stockholders' equity	\$83,393,262	\$75,688,625	\$69,945,036

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

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 extremely sensitive to economic changes. As a result, the impact of economic changes on revenues and operations can be volatile.

RCM's operational performance improved in 2006 with an increase in revenues and earnings across each of our business segments over the comparable period a year ago. We attribute this improvement to an improvement in the general economy, strength in our sector, increased capital spending by clients in selected markets and the commencement of key contracts. In addition, RCM's management continues to monitor our operating cost structure with a strong focus on management of working capital and cash flows.

Over the years, RCM has developed and assembled an attractive portfolio of capabilities, established a proven record of performance and credibility, and built an efficient pricing structure. We are committed to optimizing our 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.

We believe 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 continues to grow increasingly complex. We believe that many businesses today are focused on return on investment analysis in prioritizing their initiatives. This has an impact on spending by current and prospective clients for many emerging new solutions.

Nonetheless, we continue to believe that businesses must implement more advanced IT 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. We believe that our current and prospective clients are continuing to evaluate the potential for outsourcing business critical systems, applications, and processes.

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

The majority of our 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.

19

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

Overview (Continued)

Costs of services consist primarily of salaries and compensation-related expenses for billable consultants, including payroll taxes, employee benefits, and insurance. Selling, general and administrative expenses consist primarily of salaries and benefits of personnel responsible for business development, recruiting, operating activities, and training, and include corporate overhead expenses. Corporate overhead expenses relate to salaries and benefits of personnel responsible for corporate activities, including our corporate marketing, administrative and reporting responsibilities and acquisition program. We record these expenses when incurred. Depreciation relates primarily to our fixed assets. Amortization relates to the allocation of the purchase price of an acquisition, which has been assigned to covenants not to compete, and customer lists. Acquisitions have been accounted for under SFAS No. 141 "Business Combinations," and have created goodwill.

Critical Accounting Policies

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

Revenue Recognition

We derive our revenues from several sources. All of our segments perform consulting/staffing services. Our Engineering Services and Information Technology Services segments also perform project services. All of our segments derive revenue from permanent placement fees.

Project Services

We recognize revenues in accordance with the Securities and Exchange Commission, Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB 104"). SAB 104 clarifies application of U.S. generally accepted accounting principles to revenue transactions. Project services are generally provided on a cost-plus-fixed-fee or time-and-material basis. Typically, a customer will outsource a discrete project or activity and we assume responsibility for the performance of such project or activity. We recognize revenues and associated costs on a gross basis as services are provided to the customer and costs are incurred using our employees. From time to time, we enter into contracts requiring the completion of specific deliverables. We recognize revenue on these deliverables at the time the client accepts and approves the deliverables. In instances where project services are provided on a fixed-price basis and the contract will extend beyond a 12-month period, revenue is recorded in accordance with the terms of each contract. In some instances, revenue is billed and

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

recorded at the time certain milestones are reached, as defined in the contract. In other instances, revenue is billed and recorded based upon contractual rates per hour. In addition, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when the contract is completed and the revenue is reasonably certain of collection. Some contracts also limit revenues and billings to maximum amounts. Provision for contract losses, if any, is made in the period such losses are determined. For contracts where there are multiple deliverables and the work has not been 100% complete on a specific deliverable the costs have been deferred. The associated costs are expensed when the related revenue is recognized.

20

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

Revenue Recognition (Continued)

Consulting/Staffing Services

Revenues derived from consulting/staffing services are recorded on a gross basis as services are performed and associated costs have been incurred using our employees. In these circumstances, we assume the risk of acceptability of its employees to its customers. In certain cases, we may utilize other companies and their employees to fulfill customer requirements. In these cases, we receive an administrative fee for arranging for, billing for, and collecting the billings related to these companies. The customer is typically responsible for assessing the work of these companies who have responsibility for acceptability of their personnel to the customer. Under these circumstances, our reported revenues are net of associated costs (effectively the administrative fee).

Permanent Placement Services

We earn permanent placement fees from providing permanent placement services. Fees for placements are recognized at the time the candidate commences employment. We guarantee our permanent placements on a prorated basis for 90 days. In the event a candidate is not retained for the 90-day period, we will provide a suitable replacement candidate. In the event a replacement candidate cannot be located, we will provide a prorated refund to the client. An allowance for refunds, based upon our historical experience, is recorded in the financial statements. Revenues are recorded on a gross basis as a component of revenue.

Accounts Receivable

Our 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. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, the customer's current ability to pay its obligation to us, and the condition of the general economy and the industry as a whole. We write off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair market value of identifiable assets. In accordance with SFAS 142, "Goodwill and Other Intangible Assets," we perform our annual goodwill impairment testing, by reporting unit, as of November 30, 2006, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of our 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. We conducted our annual goodwill impairment test for 2006 as of November 30, 2006 and identified no impairments. Goodwill at December 30, 2006 and December 31, 2005 was \$39,329,000 and \$37,660,000, respectively.

Long-Lived Assets

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

21

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

Accounting for Stock Options

We have used stock options to attract, retain, and reward employees for long-term service. Generally accepted accounting principles in the United States had allowed alternative methods of accounting for these awards. Prior to 2006, we had chosen to account for its stock plans (including stock option plans) under APB 25, "Accounting for Stock Issued to Employees." Since option exercise prices reflect the market value per share of our stock upon grant, no compensation expense related to stock options was reflected in our Consolidated Statement of Income for periods ended prior to January 1, 2006.

SFAS 123R replaces SFAS 123 and supersedes APB No. 25. SFAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, SFAS 123 permitted entities the option of continuing to apply the guidance in APB 25 as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. The impact of SFAS 123R, if it had been in effect, on the net earnings and related per share amounts of our fiscal years ended December 31, 2005 and January 1, 2005 were disclosed in Note 1 Summary of Significant Accounting Policies - Stock-Based Compensation of our Financial Statements included in our Form 10-K for the fiscal year ended December 31, 2005.

Since we adopted SFAS 123R, effective January 1, 2006 using the modified-prospective-transition-method, prior periods have not been restated. Under this method, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as of the beginning of the period of

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

adoption. We measured share-based compensation cost using the Black-Scholes option pricing model.

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, in accordance with the guidance from SFAS No. 109, we make judgments and interpretations based on enacted tax laws, published tax guidance, and estimates of future earnings. As of December 30, 2006, we had total net deferred tax assets of \$3.2 million, primarily representing the tax effect of a tax net operating loss carryforward. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

Forward-looking Information

Our 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 consulting and engineering services as well as temporary and permanent employees. Should the U.S. economy decline, our operating performance could be adversely impacted. We believe that our fiscal discipline, strategic focus on targeted vertical markets and diversification of service offerings provides some insulation from adverse trends. However, declines in the economy could result in the need for future cost reductions or changes in strategy.

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

The employment services market is highly competitive with limited barriers to entry. We compete in global, national, regional, and local markets with numerous consulting, engineering and employment companies. Price competition in the industries we serve is significant, and pricing pressures from competitors and customers are increasing. We expect that the level of competition will remain high in the future, which could limit our ability to maintain or increase our market share or profitability.

22

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

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

Year Ended	Year Ended
December 30, 2006	December 31, 2005

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

	Amount	% of Revenue	Amount	% of Revenue
Revenues	\$201,920	100.0	\$180,618	100.0
Cost of services	151,412	75.0	137,935	76.4
Gross profit	50,508	25.0	42,683	23.6
Selling, general and administrative	41,244	20.4	35,461	19.6
Depreciation and amortization	1,507	.7	1,206	.7
Impairment of goodwill				
	42,751	21.1	36,667	20.3
Operating income	7,757	3.8	6,016	3.3
Other expense	287	.1	209	.1
Income before income taxes	7,470	3.7	5,807	3.2
Income taxes	1,114	.6	2,271	1.2
Net income	\$6,356	3.1	\$3,536	2.0
Earnings per share				
Basic:	\$.54		\$.31	
Diluted:	\$.53		\$.30	

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

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. A 53-week year occurs periodically. The fiscal year ended 2004 is a 53-week reporting year. Therefore, the reporting period ended January 1, 2005 consisted of fifty-three weeks as compared to the two other years, which ended on December 30, 2006 and December 31, 2005, consisting of fifty-two weeks. Unless specifically noted otherwise, the following discussion of changes between comparable periods does not reflect the fact that the fiscal year ended 2004 contains an additional one week.

Year Ended December 30, 2006 Compared to Year Ended December 31, 2005

Revenues. Revenues increased 11.8%, or \$21.3 million, for the year ended December 30, 2006 as compared to the prior year (the "comparable prior year period"). Revenues increased \$3.4 million in the Information Technology ("IT") segment, increased \$9.9 million in the Engineering segment, and increased \$7.9 million in the Commercial segment. Management attributes the overall increase to an improvement of the general economy and successful marketing and sales efforts.

Cost of Services. Cost of services increased 9.8%, or \$13.5 million, for the year ended December 30, 2006 as compared to the comparable prior year period. This increase was primarily due to the increase in revenues. Cost of services as a percentage of revenues decreased to 75.0% for the year ended December 30, 2006 from 76.4% for the comparable prior year period. This decrease was primarily

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

attributable to increased revenues in the Engineering segment, which has higher gross margins.

23

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

Year Ended December 30, 2006 Compared to Year Ended December 31, 2005 (Continued)

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses increased 16.3%, or \$5.8 million, for the year ended December 30, 2006 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 20.4% for the year ended December 30, 2006 as compared to 19.6% for the comparable prior year period. This increase was primarily attributable to SFAS 123R stock based compensation expense of \$910,000 in 2006 compared to \$-0- in the comparable prior period, as well as increased sales costs on higher revenues.

Depreciation and Amortization. Depreciation and amortization ("DA") increased 25.0%, or \$301,000, for 2006 as compared to 2005. This increase was attributable to the amortization of intangibles in the amount of \$215,000 incurred subsequent to December 31, 2005, due to acquisitions in late 2005 and early 2006.

Other Expense. Other expense consisted of interest expense, net of interest income and gains and losses on foreign currency transactions. For the year ended December 30, 2006, actual interest expense of \$539,000 was offset by \$283,000 of interest income, which was principally earned from short-term money market deposits. Interest expense, net, increased \$35,200 for the year ended December 30, 2006 as compared to the comparable prior year period. This increase was primarily due to an increase in the effective interest rate on the line of credit for the year ended December 30, 2006, which was partially offset by a reduction of debt, as compared to the comparable prior year period. Losses on foreign currency transactions increased \$43,100 because of the strengthening of the Canadian Dollar as compared to the U. S. Dollar during the year ended December 30, 2006.

Income tax expense. Income tax expense decreased 50.9%, or \$1.2 million, for the year ended December 30, 2006 as compared to the comparable prior year period. The decrease was primarily attributable to a reversal of \$1.3 million of previously accrued income taxes, which related to the potential repayment of tax benefits associated with previously claimed tax deductions claimed from goodwill impairments. This matter was settled during the year ended December 30, 2006. This decrease was partially offset by higher taxable income for the year ended December 30, 2006, compared to the comparable prior year period. As a result, the effective tax rate was 14.9% for the year ended December 30, 2006 as compared to 39.1%, in the year ended December 31, 2005.

Goodwill Impairment. SFAS 142 requires the Company to perform a goodwill impairment test on at least an annual basis. The results of the 2006 and 2005 impairment testing indicated no impairment to goodwill. There can be no assurance that future goodwill impairment tests will not result in further impairment charges.

Segment Discussion (See Footnote 13)

Information Technology

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

IT revenues of \$101.4 million in 2006 represented an increase of \$3.4 million, or 3.5%, compared to 2005. The increase in revenue was attributable to an increase in demand for IT services. EBITDA for the IT segment was \$6.7 million, or 71.8% of the overall EBITDA, for 2006 as compared to \$5.8 million, or 80.8% of the overall EBITDA, for 2005.

Engineering

Engineering revenues of \$57.6 million in 2006 represented an increase of \$9.9 million, or 20.8%, compared to 2005. The increase in revenue was attributable to an increase in demand for the Company's engineering services. The Engineering segment EBITDA was \$1.0 million, or 11.2% of the overall EBITDA, for 2006 as compared to \$258,000, or 3.6% of the overall EBITDA, for 2005.

Commercial

Commercial revenues of \$42.9 million in 2006 represented an increase of \$7.9 million, or 22.7% compared to 2005. The increase in revenue for the Commercial segment was attributable to improvement in economic activity within this segment. The Commercial segment EBITDA was \$1.6 million, or 17.0% of the overall EBITDA, for 2006 as compared to \$1.1 million, or 15.6% of the overall EBITDA, for 2005.

24

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

Year Ended December 31, 2005 Compared to Year Ended January 1, 2005

Revenues. Revenues increased 6.7%, or \$11.3 million, for the year ended December 31, 2005 as compared to the prior year (the "comparable prior year period"). The revenue increased \$5.1 million in the IT segment, decreased \$3.5 million in the Engineering segment, and increased \$9.7 million in the Commercial segment. Management attributes the overall increase to an improvement of the general economy and successful marketing and sales efforts.

Cost of Services. Cost of services increased 7.5%, or \$9.6 million, for the year ended December 31, 2005 as compared to the comparable prior year period. This increase was primarily due to the increase in revenues. Cost of services as a percentage of revenues increased to 76.4% for the year ended December 31, 2005 from 75.8% for the comparable prior year period. This increase was primarily attributable to increased pricing pressures in the IT segment as well as increased revenues in the Commercial segment, which has lower gross margins.

Selling, General and Administrative. SGA expenses increased 3.3%, or \$1.1 million, for the year ended December 31, 2005 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 19.6% for the year ended December 31, 2005 as compared to 20.3% for the comparable prior year period. This modest decrease was primarily attributable to continued cost containment activities, which were offset by increased sales costs on higher revenues and increased legal fees.

Depreciation and Amortization. DA decreased 1.1%, or \$13,000, for 2005 as compared to 2004.

Other Expense. Other expense consisted of interest expense, net of interest income and gains and losses on foreign currency transactions. For the year ended December 31, 2005, actual interest expense of \$568,000 was offset by \$347,000 of

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

interest income, which was principally earned from short-term money market deposits. Interest expense, net, decreased \$253,000 for the year ended December 31, 2005 as compared to the comparable prior year period. This decrease was primarily due to a reduction of debt, which was partially offset by an increase in the effective interest rate on the line of credit for the year ended December 31, 2005 as compared to the comparable prior year period. Gains on foreign currency transactions decreased \$13,000 because of the stabilization of the Canadian Dollar as compared to the U. S. Dollar during the year ended December 31, 2005, as compared to the strengthening of the Canadian Dollar in relation to the U.S. Dollar in the comparable prior year period.

Income Tax. Income tax expense increased 276%, or \$1.7 million, for the year ended December 31, 2005 as compared to the comparable prior year period. The increase was attributable to a favorable change in the valuation allowance in 2004, which was offset by a nondeductible goodwill impairment charge of \$2.2 million in fiscal year ended January 1, 2005. The effective tax rate was 39.1% for the year ended December 31, 2005 as compared to 27.1%, in the year ended January 1, 2005, which was net of the goodwill charge and change in valuation allowance in the comparable prior year.

Goodwill Impairment. SFAS 142 requires the Company to perform a goodwill impairment test on at least an annual basis. The results of the 2005 impairment testing indicated no impairment to goodwill. The 2004 analysis revealed that goodwill amounting to approximately \$2.2 million had been impaired for the fiscal year ended January 1, 2005, and therefore, would not be recoverable through future profitable operations. There can be no assurance that future goodwill impairment tests will not result in further impairment charges.

25

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

Year Ended December 31, 2005 Compared to Year Ended January 1, 2005 (Continued)

Segment Discussion (See Footnote 13)

Information Technology

IT revenues of \$98 million in 2005 represented an increase of \$5.1 million, or 5.5%, compared to 2004. The increase was attributable to an increase in demand for IT services. The IT segment EBITDA was \$5.8 million, or 80% of the overall EBITDA, for 2005 as compared to \$2.1 million, or 47.6% of the overall EBITDA, for 2004.

Engineering

Engineering revenues of \$47.7 million in 2005 represented a decrease of \$3.5 million, or 7.5%, compared to 2004. The decrease in revenue was attributable to the softening of demand for the Company's engineering services. The Engineering segment EBITDA was \$258,000, or 3.6% of the overall EBITDA, for 2005 as compared to \$2.8 million, or 63.1% of the overall EBITDA, for 2004.

Commercial

Commercial revenues of \$34.9 million in 2005 represented an increase of \$9.7 million, or 38.6% compared to 2004. The increase in revenue for the Commercial segment was attributable to improvement in economic activity within this

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

segment. The Commercial segment EBITDA was \$1.1 million, or 15.6% of the overall EBITDA, for 2005 as compared to a loss of \$428,000, for 2004.

26

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

Liquidity and Capital Resources

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

(In thousands)	Year Ended December 30, 2006	Year Ended December 31, 2005
Operating Activities	\$5,604	\$3,597
Investing Activities	(\$3,401)	(\$2,483)
Financing Activities	(\$3,527)	\$-

Operating Activities

Operating activities provided \$5.6 million of cash for the year ended December 30, 2006 as compared to \$3.6 million for the comparable 2005 period. The increase in cash provided by operating activities was primarily attributable to increased earnings, a decrease in prepaid expenses and other current assets, a decrease in deferred tax assets, an increase in accrued compensation, an increase in payroll and withheld taxes, an increase in non cash charge for stock based compensation expense and a decrease in restricted cash. These changes were offset by an increase in accounts receivable, a decrease in accounts payable and accrued expenses, and a decrease in income taxes payable. The Company continues to institute enhanced controls and standardization over its receivables collection and disbursement processes.

Investing Activities

Investing activities used \$3.4 million for the year ended December 30, 2006 as compared to \$2.5 million for the comparable prior year period. The increase in the use of cash for investing activities for 2006 as compared to the comparable 2005 period was primarily attributable to an increase in expenditures for property and equipment, and cash used for acquisitions.

Financing Activities

In 2006, financing activities principally consisted of the sale of stock for the employee stock purchase plan of \$143,829 and the exercise of stock options of \$229,307 and debt reduction of \$3.9 million. In 2005, financing activities principally consisted of the sale of stock for the employee stock purchase plan of \$146,378 and the exercise of stock options of \$853,481 and debt reduction of \$1.0 million of debt.

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, administrative agent for a syndicate of banks, which provides for a \$25 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

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

margin, or (ii) the agent bank's prime rate.

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.

27

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

Liquidity and Capital Resources (Continued)

Financing Activities (Continued)

The Revolving Credit Facility expires in August 2011. The weighted average interest rates under the Revolving Credit Facility for the years ended December 30, 2006 and December 31, 2005 were 9.05% and 6.31%, respectively. During 2006 and 2005, the Company's outstanding borrowings ranged from \$-0- to \$7.1 million and \$3.9 million to \$7.0 million, respectively. At December 30, 2006, there were no outstanding borrowings under this facility and at December 31, 2005, the amount outstanding under this facility was \$3.9 million. At December 30, 2006, there was a letter of credit outstanding for \$116,000, which is used as collateral for a lease obligation. At December 30, 2006, the Company had availability for additional borrowing under the Revolving Credit Facility of \$24.9 million.

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, 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 for the period in which the effect becomes reasonably estimable.

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

The Company does not currently have material commitments for capital expenditures and does not currently anticipate entering into any such commitments during the next twelve months. 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 the next twelve months.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

At December 30, 2006, the Company had a deferred tax asset totaling \$3.7 million, primarily representing the tax effect of a tax net operating loss carryforward. The Company expects to utilize the deferred tax asset during the 12 months ending December 29, 2007 by offsetting the related tax benefits of such assets against tax liabilities incurred from forecasted taxable income.

Summarized below are the Company's obligations and commitments to make future payments under lease agreements and debt obligations as of December 30, 2006 (in thousands):

	Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years
Long-Term Debt Obligations (1)				
Operating Lease Obligations	\$10,948	\$3,041	\$4,503	\$2,848
Total	\$10,948	\$3,041	\$4,503	\$2,848

28

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

Liquidity and Capital Resources (Continued)

Significant employment agreements are as follows:

Employment Agreement

The Company has an employment agreement with its Chief Executive Officer and President, Leon Kopyt, which currently provides for an annual base salary of \$525,000 and other customary benefits. In addition, the agreement provides that Mr. Kopyt's annual bonus is based on EBITDA, defined as earnings before interest, taxes, depreciation and amortization. As of December 30, 2006, the agreement expires on February 28, 2009. The agreement is for a rolling term of three years, which automatically extends each year for an additional one-year period on February 28 of each year. The employment agreement is terminable by the Company upon Mr. Kopyt's death or disability, or for "good and sufficient cause," as defined in the agreement.

Termination Benefits Agreement

The Company is party to a Termination Benefits Agreement with Mr. Kopyt amended and restated as of March 18, 1997 (the "Benefits Agreement"). Pursuant to the Benefits Agreement, following a Change in Control (as defined therein), the remaining term of Mr. Kopyt's employment is extended for five years (the "Extended Term"). If Mr. Kopyt's employment is terminated thereafter by the Company other than for cause, or by Mr. Kopyt for good reason (including, among

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

other things, a material change in Mr. Kopyt's salary, title, reporting responsibilities or a change in office location which requires Mr. Kopyt to relocate), then the following provisions take effect: the Company is obligated to pay Mr. Kopyt a lump sum equal to his salary and bonus for the remainder of the Extended Term; and the Company shall be obligated to pay to Mr. Kopyt the amount of any excise tax associated with the benefits provided to Mr. Kopyt under the Benefits Agreement. If such a termination had taken place as of December 30, 2006, Mr. Kopyt would have been entitled to cash payments of approximately \$3.5 million (representing salary and excise tax payments).

Severance Agreement

The Company is party to a Severance Agreement with Mr. Kopyt, dated June 10, 2002 (the "Severance Agreement"). The severance agreement provides for certain payments to be made to Mr. Kopyt and for the continuation of Mr. Kopyt's employee benefits for a specified time after his service with the Company is terminated other than "for cause," as defined in the Severance Agreement. Amounts payable to Mr. Kopyt under the Severance Agreement would be offset and reduced by any amounts received by Mr. Kopyt after his termination of employment under his current employment and termination benefits agreements, which are supplemented and not superseded by the Severance Agreement. If Mr. Kopyt had been terminated as of December 30, 2006, then under the terms of the Severance Agreement, and after offsetting any amounts that would have been received under his current employment and termination benefits agreements, he would have been entitled to cash payments of approximately \$1.9 million, inclusive of employee benefits.

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.

Our business is labor intensive; therefore, we have a high exposure to increasing healthcare benefit costs. We attempt to compensate for these escalating costs in our business cost models and customer pricing by passing along some of these increased healthcare benefit costs to our customers and employees, however, we have 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.

29

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

Liquidity and Capital Resources (Continued)

New Accounting Standards

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 is effective for fiscal years ending on or

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

after November 15, 2006 and addresses how financial statement errors should be considered from a materiality perspective and corrected. The literature provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Historically, there have been two common approaches used to quantify such errors: (i) the "rollover" approach, which quantifies the error as the amount by which the current year income statement is misstated, and (ii) the "iron curtain" approach, which quantifies the error as the cumulative amount by which the current year balance sheet is misstated. The SEC staff believes that companies should quantify errors using both approaches and evaluate whether either of these approaches results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. Historically, the Company has evaluated uncorrected differences utilizing the "rollover" approach. SAB 108 did not have a material effect on the Company's consolidated financial position or results of operations.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements," ("SFAS 157"), which establishes a single authoritative definition of fair value, set out a framework for measuring fair value, and required additional disclosures about fair-value measurements. SFAS 157 applied to fair value measurements that are already required or permitted by existing standards except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value. SFAS 157 does not impose any additional fair value measurements in financial statements and is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FAS 48"). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Specifically, FAS 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The FAS 48 also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure, and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the impact of this new pronouncement on its consolidated financial statements.

SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), which the Company has adopted effective as of January 1, 2006, requires all share-based payments to employees, including grants of employee stock options, to be recognized as an expense in the Consolidated Statements of Operations based on their fair values as they are earned by the employees under the vesting terms. Pro forma disclosure of stock-based compensation expense, as was the Company's practice under SFAS 123, is not permitted after 2005, since SFAS 123R must be adopted no later than the first interim or annual period beginning after December 15, 2005. The Company followed the "modified prospective" method of adoption of SFAS 123R beginning in fiscal 2006, whereby earnings for prior periods are not to be restated as though stock based compensation had been expensed.

Liquidity and Capital Resources (Continued)

New Accounting Standards (Continued)

In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections--A Replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principles, unless it is impractical to determine either the period-specific effects or the cumulative effects of a change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company has adopted the provision of SFAS 154, as applicable, beginning in fiscal 2006.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of its line of credit. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of December 30, 2006, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Presently the impact of a 10% (approximately 90 basis points) increase in interest rates on its variable debt (using average debt balances during the fiscal year ended December 30, 2006 and average interest rates) would have a relatively nominal impact on the Company's results of operations. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

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

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

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.

32

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 shall be included in the 2007 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 shall be included in the 2007 Proxy Statement.

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

The information required by Item 12 shall be included in the 2007 Proxy Statement.

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

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining for issuance, exclusive of rights
	(a)	(b)	
Equity compensation plans approved by security holders.....	1,768,000	\$4.00	
Equity compensation plans not approved by security holders.....	_____	_____	
Total.....	1,768,000	\$4.00	

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 shall be included in the 2007 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 shall be included in the 2007 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

3. See Item (b) below.

(b) Exhibits

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

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

- (3) (b) Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit A of 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 of 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 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1997.
- (4) (a) Registration Rights Agreement, dated March 11, 1996, by and between RCM Technologies, Inc. and the former shareholders of The Consortium; incorporated by reference to Exhibit (c)(2) to the Registrant's Current Report on Form 8-K dated March 19, 1996, filed with the Securities and Exchange Commission on March 20, 1996.
- * (10) (a) RCM Technologies, Inc. 1992 Incentive Stock Option Plan; incorporated by reference to Exhibit A of the Registrant's Proxy Statement, dated March 9, 1992, filed with the Securities and Exchange Commission on March 9, 1992.
- (10) (b) RCM Technologies, Inc. 1994 Non-employee Director Stock Option Plan; incorporated by reference to the appendix of the Registrant's Proxy Statement, dated March 31, 1994, filed with the Securities and Exchange Commission on March 28, 1994.
- * (10) (c) RCM Technologies, Inc. 1996 Executive Stock Option Plan, dated August 15, 1996; incorporated by reference to Exhibit 10(1) to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1996, filed with the Securities and Exchange Commission on January 21, 1997 (the "1996 10-K").
- * (10) (d) RCM Technologies, Inc. 2000 Employee Stock Incentive Plan, dated January 6, 2000; incorporated by reference to Exhibit A of the Registrant's Proxy Statement, dated March 3, 2000, filed with the Securities and Exchange Commission on February 28, 2000.
- * (10) (e) Second Amended and Restated Termination Benefits Agreement, dated March 18, 1997, between the Registrant and Leon Kopyt; incorporated by reference to Exhibit 10(g) to the Registrant's Registration Statement on Form S-1 SEC File No. 333-23753), filed with the Securities and Exchange Commission on March 21, 1997.
- * (10) (f) Amended and Restated Employment Agreement, dated November 30, 1996, between the Registrant, Intertec Design, Inc. and Leon Kopyt; incorporated by reference to Exhibit 10(g) to the Registrant's 1996 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on January 15, 1997.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (CONTINUED)

(b) Exhibits (Continued)

- * (10) (g) RCM Technologies, Inc. 2000 Employee Stock Incentive Plan; incorporated by reference to Exhibit A to the Registrant's Proxy Statement, dated March 3, 2000, filed with the Commission on February 28, 2000.
- (10) (h) Amended and Restated Loan and Security Agreement, dated May 31, 2002, between RCM Technologies, Inc. and All of its Subsidiaries with Citizens Bank of Pennsylvania, as Administrative Agent and Arranger.
- * (10) (i) Severance Agreement, dated June 10, 2002, between RCM Technologies, Inc. and Leon Kopyt.
- * (10) (j) Exhibit A To Severance Agreement General Release.
- (10) (k) Amendment And Modification to Amended And Restated Loan and Security Agreement, dated December 30, 2002, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger.
- (10) (l) Second Amendment And Modification to Amended And Restated Loan and Security Agreement, dated February 26, 2003, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger.
- (10) (m) Third Amendment And Modification to Amended And Restated Loan and Security Agreement, dated October 1, 2003, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger.
- (10) (n) Fourth Amendment And Modification to Amended And Restated Loan and Security Agreement, dated July 23, 2004, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger.
- (10) (o) Fifth Amendment and Modification to Amended and Restated Loan and Security Agreement dated August 7, 2006, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger.
- * (10) (p) Compensation Arrangements for Named Executive Officers. (Filed herewith)
- * (10) (q) Compensation Arrangements for Directors. (Filed herewith)
- (11) Computation of Earnings (loss) Share. (Filed herewith)
- (21) Subsidiaries of the Registrant. (Filed herewith)
- (23) Consent of Grant Thornton 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)

PART IV (CONTINUED)

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON
FORM 8-K (CONTINUED)

(b) Exhibits (Continued)

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

* Constitutes a management contract or compensatory plan or arrangement.

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: March 8, 2007

By: /s/ Leon Kopyt

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Leon Kopyt
Chairman, President,
Chief Executive Officer and
Director

Date: March 8, 2007

By: /s/ Stanton Remer

Stanton Remer
Executive Vice
President, Chief
Financial Officer,
Treasurer, Secretary
and Director

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

Date: March 8, 2007

/s/ Leon Kopyt

Leon Kopyt
Chairman, President,
Chief Executive Officer
(Principal Executive Officer)
and Director

Date: March 8, 2007

/s/ Stanton Remer

Stanton Remer
Executive Vice
President, Chief
Financial Officer,
Treasurer, Secretary
(Principal Financial and
Accounting Officer)
and Director

Date: March 8, 2007

/s/ Norman S. Berson

Norman S. Berson
Director

Date: March 8, 2007

/s/ Robert B. Kerr

Robert B. Kerr
Director

Date: March 8, 2007

/s/ David Gilfor

David Gilfor
Director

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

FORM 10-K

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Consolidated Balance Sheets, December 30, 2006 and December 31, 2005

Consolidated Statements of Income, Years Ended December 30, 2006,
December 31, 2005 and January 1, 2005

Consolidated Statements of Changes in Stockholders' Equity and Consolidated
Statements of Comprehensive Income, Years Ended December 30, 2006,
December 31, 2005 and January 1, 2005

Consolidated Statements of Cash Flows, Years Ended December 30, 2006,
December 31, 2005 and January 1, 2005

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Schedules I and II

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 30, 2006 and December 31, 2005

ASSETS

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

	December 30, 2006

Current assets	
Cash and cash equivalents	\$2,449,428
Accounts receivable, net of allowance for doubtful accounts of \$1,672,000 and \$1,792,000 in fiscal 2006 and 2005, respectively	48,140,787
Restricted cash	1,715,858
Prepaid expenses and other current assets	3,185,050
Deferred tax assets	

Total current assets	55,491,123

Property and equipment, at cost	
Equipment and leasehold improvements	10,086,457
Less: accumulated depreciation and amortization	5,694,513

	4,391,944

Other assets	
Deposits	158,722
Goodwill	39,328,997
Intangible assets, net of accumulated amortization of \$406,000 and \$96,000 in fiscal 2006 and 2005, respectively	669,270

	40,156,989

Total assets	\$100,040,056
=====	

F-2

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - (CONTINUED)
December 30, 2006 and December 31, 2005

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 30, 2006
<hr/>	
Current liabilities	
Line of credit	
Accounts payable and accrued expenses	\$7,317,135
Accrued compensation	8,122,058
Payroll and withheld taxes	1,146,136
Income taxes payable	61,465
<hr/>	
Total current liabilities	16,646,794
<hr/>	
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; 11,822,126 and 11,728,261 shares issued and outstanding at December 30, 2006 and December 31, 2005, respectively	591,107
Additional paid-in capital	101,559,302
Accumulated other comprehensive income	1,001,488
Accumulated deficit	(19,758,635)
<hr/>	
	83,393,262
<hr/>	
Total liabilities and stockholders' equity	\$100,040,056
<hr/> <hr/>	

F-3

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

	December 30, 2006	December 31, 2005
<hr/>		

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Revenues	\$201,920,059	\$180,618,164
Cost of services(1)	151,411,687	137,935,632

Gross profit	50,508,372	42,682,532

Operating costs and expenses		
Selling, general and administrative(2)	41,243,523	35,460,706
Depreciation	1,197,369	1,110,676
Amortization	310,354	95,376
Impairment of goodwill		

	42,751,246	36,666,758

Operating income	7,757,126	6,015,774

Other (expenses) income		
Interest expense, net of interest income	(256,236)	(221,070)
(Loss) gain on foreign currency transactions	(31,154)	11,898

	(287,390)	(209,172)

Income before income taxes	7,469,736	5,806,602
Income tax expense	1,113,473	2,270,516

Net income	\$6,356,263	\$3,536,086
=====		

F-4

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

	December 30, 2006	December 31, 2005

Basic earnings per share		

Net income	\$.54	\$.31

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Weighted average number of common shares outstanding	11,773,301	11,456,757
Diluted earnings per share		
Net income	\$.53	\$.30
Weighted average number of common and common equivalent shares outstanding (includes dilutive securities relating to options of 261,364 in 2006, 274,834 in 2005 and 354,186 in 2004)		
	12,034,665	11,731,591

F-5

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS'
EQUITY Years Ended December 30, 2006, December 31, 2005
and January 1, 2005

	Common Stock Shares	Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensiv Income
Balance, December 27, 2003	11,285,279	\$564,264	\$97,906,888	\$556,795
Issuance of stock under employee stock purchase plan	37,107	1,855	174,365	
Exercise of stock options	61,084	3,054	209,466	
Translation adjustment				179,333
Net income				
Balance, January 1, 2005	11,383,470	569,173	98,290,719	736,128
Issuance of stock under employee stock purchase plan	38,941	1,947	144,431	
Exercise of stock options	205,850	10,293	843,188	
Issuance of common stock and stock options in connection with acquisition	100,000	5,000	957,000	
Translation adjustment				245,644
Net income				
Balance, December 31, 2005	11,728,261	586,413	100,235,338	981,772

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Issuance of stock under employee stock purchase plan	33,770	1,689	142,140	
Exercise of stock options	60,095	3,005	226,302	
Translation adjustment				19,716
Stock based compensation expense			955,522	
Net income				

Balance, December 30, 2006	11,822,126	\$591,107	\$101,559,302	\$1,001,488
=====				

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

	December 30, 2006	December 31, 2005	January 2005

Net income	\$6,356,263	\$3,536,086	\$2,200,000
Foreign currency translation adjustment	19,716	245,644	17,000

Comprehensive income	\$6,375,979	\$3,781,730	\$2,217,000
=====			

F-6

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

	December 30, 2006	December 31, 2005	Ja 2005

Cash flows from operating activities:			
Net income	\$6,356,263	\$3,536,086	

Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,507,723	1,206,052	
Provision for allowance on accounts receivable	(120,000)	(70,000)	
Stock based compensation expense	955,522		
Goodwill impairment			

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Deferred taxes	827,290	951,667
Changes in assets and liabilities:		
Accounts receivable	(3,143,664)	(4,341,774)
Restricted cash	8,572,064	(276,439)
Prepaid expenses and other current assets	1,131,955	(50,069)
Accounts payable and accrued expenses	(7,665,185)	1,448,996
Accrued compensation	1,085,561	321,311
Payroll and withheld taxes	277,083	(232,581)
Income taxes payable	(4,180,214)	1,103,301

Total adjustments	(751,865)	60,464

Net cash provided by (used in) operating activities	\$5,604,398	\$3,596,550

F-7

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

	December 30, 2006	December 31, 2005

Cash flows from investing activities:		
Property and equipment acquired	(\$1,568,932)	(\$558,131)
Decrease (increase) in deposits	8,092	(28,656)
Cash paid for acquisition, net of cash acquired	(1,839,677)	(1,895,997)

Net cash used in investing activities	(3,400,517)	(2,482,784)

Cash flows from financing activities:		
Net repayments of line of credit	(3,900,000)	(1,000,000)
Issuance of stock for employee stock purchase plan	143,829	146,378
Exercise of stock options	229,307	853,481

Net cash used in financing activities	(3,526,864)	(141)

Effect of exchange rate changes on cash		

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

and cash equivalents	11,348	245,644

Net (decrease) increase in cash and cash equivalents	(1,311,635)	1,359,269
Cash and cash equivalents at beginning of year	3,761,063	2,401,794

Cash and cash equivalents at end of year	\$2,449,428	\$3,761,063
=====		
Supplemental cash flow information:		
Cash paid for:		
Interest	\$723,280	\$332,892
Income taxes	\$4,060,086	\$422,917

F-8

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

RCM Technologies is a premier provider of business and technology solutions designed to enhance and maximize the operational performance of its customers through the adaptation and deployment of advanced information technology and engineering services. RCM's offices are located in major metropolitan centers throughout North America.

The consolidated financial statements are comprised of the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Fiscal Periods

The reporting period for the Company is the Saturday closest to the last day in December. Fiscal years 2006 and 2005 represent the 52 weeks ended December 30, 2006 and December 31, 2005, respectively. Fiscal year 2004

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

represents the 53 weeks ended January 1, 2005.

Cash and Cash Equivalents

The Company considers its holdings of highly liquid money-market instruments 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.

Fair Value of Financial Instruments

The Company's carrying value of financial instruments, consisting primarily of accounts receivable and debt approximates fair value. 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.

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 are credited to the allowance for doubtful accounts.

F-9

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair market value of identifiable assets. In accordance with SFAS 142, Goodwill and Other Intangible Assets, the Company performs its annual goodwill impairment testing, by reporting unit, as of November 30, 2006, or more frequently if events or changes in circumstances indicate that

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

goodwill may be impaired. Application of the goodwill impairment test requires significant judgment including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of our 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 conducted its annual goodwill impairment test as of November 30, 2006 and identified no impairments. Goodwill at December 30, 2006 and December 31, 2005 was \$39,329,000 and \$37,660,000, respectively.

During the fourth quarter of fiscal year 2004, the review indicated that there was an impairment of value, which resulted in a \$2.2 million charge to expense for the fiscal year ended January 1, 2005, in order to properly reflect the appropriate carrying value of goodwill. The aforementioned impairment was in a reporting unit within the Company's Information Technology business segment.

Long-Lived Assets

The Company accounts for long-lived assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Management periodically reviews the carrying amounts of long-lived assets to determine whether current events or circumstances warrant adjustment to such carrying amounts. Any impairment is measured by the amount that the carrying value of such assets exceeds their fair value, primarily based on estimated discounted cash flows. Considerable management judgment is necessary to estimate the fair value of assets. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value, less cost to sell.

Software

In accordance with the American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), 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 years ended December 30, 2006, December 31, 2005 and January 1, 2005, the Company capitalized approximately \$563,000, \$269,000 and \$226,000, respectively, of software costs in accordance with SOP 98-1.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109"), which requires an asset and liability approach of accounting for income taxes. SFAS 109 requires assessment of the likelihood of realizing benefits associated with deferred tax assets for purposes of determining whether a valuation allowance is needed for such deferred tax assets. The Company and its wholly owned U.S. subsidiaries file a consolidated federal income tax return.

F-10

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Company derives its revenues from several sources. All of the Company's segments perform staffing services. The Company's Engineering services and IT services segments also perform project services. All of the Company's segments derive revenue from permanent placement fees.

Project Services - The Company recognizes revenues in accordance with the Securities and Exchange Commission, Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition" ("SAB 104"). SAB 104 clarifies application of U.S. generally accepted accounting principles to revenue transactions. Project services are generally provided on a cost-plus-fixed-fee or time-and-material basis. Typically, a customer will outsource a discrete project or activity and the Company assumes responsibility for the performance of such project or activity. The Company recognizes revenues and associated costs on a gross basis as services are provided to the customer and costs are incurred using its employees. The Company, from time to time, enters into contracts requiring the completion of specific deliverables. The Company recognizes revenue on these deliverables at the time the client accepts and approves the deliverables. In instances where project services are provided on a fixed-price basis and the contract will extend beyond a 12-month period, revenue is recorded in accordance with the terms of each contract. In some instances, revenue is billed and recorded at the time certain milestones are reached, as defined in the contract. In other instances, revenue is billed and recorded based upon contractual rates per hour. In addition, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when the contract is completed and the revenue is reasonably certain of collection. Some contracts also limit revenues and billings to maximum amounts. Provision for contract losses, if any, is made in the period such losses are determined. Expenses related to contracts that extend beyond a 12-month period are charged to cost of services as incurred.

Consulting/Staffing Services - Revenues derived from staffing services are recorded on a gross basis as services are performed and associated costs have been incurred using employees of the Company. In these circumstances, the Company assumes the risk of acceptability of its employees to its customers. In certain cases, the Company may utilize other companies and their employees to fulfill customer requirements. In these cases, the Company receives an administrative fee for arranging for, billing for, and collecting the billings related to these companies. The customer is typically responsible for assessing the work of these companies who have responsibility for acceptability of their personnel to the customer. Under these circumstances, the Company's reported revenues are net of associated costs (effectively the administrative fee).

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

Concentration

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

During 2006, United Technologies accounted for 11.4% of the Company's revenues. No other customer accounted for 10% or more of the Company's revenues. The Company's five and ten largest customers accounted for approximately 25.2% and 34.6%, respectively, of the Company's revenues for 2006.

F-11

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration (Continued)

During 2005, the Company's largest customer accounted for 8.8% of the Company's revenues. At December 31, 2005, the accounts receivable due from the largest customer was \$7.7 million. The Company's five and ten largest customers accounted for approximately 26.3% and 35.6%, respectively, of the Company's revenues for 2005.

During 2004, the Company's largest customer accounted for 7.4% of the Company's revenues. At January 1, 2005, the accounts receivable due from the largest customer was \$7.9 million. The Company's five and ten largest customers accounted for approximately 25.4% and 36.9%, respectively, of the Company's revenues for 2004.

Foreign Currency Translation

The functional currency of the Company's Canadian subsidiary is the subsidiary's 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 common shares consist of stock options that are computed using the treasury stock method. Because of the Company's capital structure, all reported earnings pertain to common shareholders and no other assumed adjustments are necessary.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

The number of common shares used to calculate basic and diluted earnings per share for 2006, 2005 and 2004 was determined as follows:

	Year Ended December 30, 2006	Year Ended December 31, 2005	Year Ended January 1, 2005
Basic average shares outstanding	11,773,301	11,456,757	11,325,62
Dilutive effect of stock options	261,364	274,834	354,18
Dilutive shares	12,034,665	11,731,591	11,679,81
=====	=====	=====	=====

Options to purchase 1,768,000 shares of common stock at prices ranging from \$3.00 to \$7.04 per share were outstanding as of December 30, 2006. There were 109,000 options not included in the calculation of common stock equivalents because the exercise price of the options exceeded the average market price for the year ended December 30, 2006.

F-12

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Per Share Data (Continued)

Options to purchase 1,935,483 shares of common stock at prices ranging from \$3.00 to \$7.04 per share were outstanding as of December 31, 2005. There were 163,000 options not included in the calculation of common stock equivalents because the exercise price of the options exceeded the average market price for the year ended December 31, 2005.

Options to purchase 1,183,583 shares of common stock at prices ranging from \$3.00 to \$7.04 per share were outstanding as of January 1, 2005. There were 84,000 options not included in the calculation of common stock equivalents because the exercise price of the options exceeded the average market price for the year ended January 1, 2005.

Stock Based Compensation

Effective as of January 1, 2006, the Company has adopted SFAS 123R. SFAS 123R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued.

SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

In addition to the accounting standard that sets forth the financial reporting objectives and related accounting principles, SFAS 123R includes an appendix of implementation guidance that provides expanded guidance on measuring the fair value of share-based payment awards. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS No. 123R.

SFAS 123R replaces SFAS 123, Accounting for Stock-Based Compensation ("SFAS 123"), and supersedes Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"). SFAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, SFAS 123 permitted entities the option of continuing to apply the guidance in APB No. 25 as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used.

Since the Company adopted SFAS 123R using the modified-prospective-transition-method, prior periods have not been restated. Under this method, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as of the beginning of the period of adoption. The Company measured share-based compensation cost using the Black-Scholes option pricing model.

At December 30, 2006, the Company has four stock based employee compensation plans as described in note 7. Stock based compensation of \$955,522, or \$0.08 per diluted share, was recognized for the year ended December 30, 2006.

F-13

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock Based Compensation (Continued)

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based employee compensation (in thousands, except per share amounts) for fiscal years ended December 31, 2005 and January 1, 2005.

	December 31, 2005	January 1, 2005
Net income, as reported	\$3,536	\$2,207
Less: stock-based compensation costs determined under fair value based method for all awards	692	321

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Net income, pro forma	\$2,844	\$1,886
Earnings per share of common stock-basic:		
As reported	\$.31	\$.19
Pro forma	\$.25	\$.16
Earnings per share of common stock-diluted:		
As reported	\$.30	\$.19
Pro forma	\$.24	\$.16

The pro-forma compensation cost using the fair value-based method under SFAS No. 123 includes valuations related to stock options granted since January 1, 1995 using the Black-Scholes Option Pricing Model. The weighted average fair value of options granted using Black-Scholes Option Pricing Model during 2006, 2005 and 2004 has been estimated using the following assumptions:

	Year Ended December 30, 2006	Year Ended December 31, 2005	Year Ended January 1, 2005
Weighted average risk-free interest rate	4.90%	3.91%	3.74%
Expected life of option	5 years	5 years	5 years
Expected stock price volatility	56%	58%	60%
Expected dividend yield	-	-	-
Weighted-average per share value granted	\$2.44	\$2.51	\$2.65

Expected volatility is based on the historical volatility of the price of our common stock since January 2, 2001. We use historical information to estimate expected life and forfeitures within the valuation model. The expected term of awards represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.

F-14

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock Based Compensation (Continued)

There were options to purchase 12,000 shares of common stock granted during the year ended December 30, 2006. The stock based compensation expense

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

attributable to the 12,000 options was \$5,435 for the year ended December 30, 2006.

As of December 30, 2006, we have approximately \$1.0 million of total unrecognized compensation cost related to non-vested awards granted under our various share-based plans, which we expect to recognize over a weighted-average period of 1.7 years. These amounts do not include the cost of any additional options that may be granted in future periods nor any changes in the Company's forfeiture rate.

We received cash from options exercised during the fiscal years 2006 and 2005 of \$229,307 and \$853,481, respectively. The impact of these cash receipts is included in financing activities in the accompanying consolidated statements of cash flows.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was \$1,080,000, \$884,000, and \$667,000 for the years ended December 30, 2006, December 31, 2005, and, January 1, 2005, respectively.

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 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 U.S. economy, competition, demand for the Company's services, adverse litigation and claims and the hiring, training and retention of key employees.

New Accounting Standards

In September 2006, the SEC issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 is effective for fiscal years ending on or after November 15, 2006 and addresses how financial statement errors should be considered from a materiality perspective and corrected. The literature provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Historically, there have been two common approaches used to quantify such errors: (i) the "rollover" approach, which quantifies the error as the amount by which the current year income statement is misstated, and (ii) the "iron curtain" approach, which quantifies the error as the cumulative amount by which the current year balance sheet is misstated.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

The SEC staff believes that companies should quantify errors using both approaches and evaluate whether either of these approaches results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. Historically, the Company has evaluated uncorrected differences utilizing the "rollover" approach. The adoption of SAB 108 did not have a material effect on the Company's consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," ("SFAS 157"), which establishes a single authoritative definition of fair value, set out a framework for measuring fair value, and required additional disclosures about fair-value measurements. SFAS 157 applied to fair value measurements that are already required or permitted by existing standards except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value. SFAS 157 does not impose any additional fair value measurements in financial statements and is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Specifically, FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The FIN 48 also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure, and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the impact of this new pronouncement on its consolidated financial statements.

SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), which the Company has adopted effective as of January 1, 2006, requires all share-based payments to employees, including grants of employee stock options, to be recognized as an expense in the Consolidated Statements of Income based on their fair values as they are earned by the employees under the vesting terms. Pro forma disclosure of stock-based compensation expense, as was the Company's practice under SFAS 123, is not permitted after 2005, since SFAS 123R must be adopted no later than the first interim or annual period beginning after December 15, 2005. The Company followed the "modified prospective" method of adoption of SFAS 123R beginning in fiscal 2006, whereby earnings for prior periods are not to be restated as though stock based compensation had been expensed.

In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections--A Replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principles, unless it is impractical to determine either the period-specific effects or the

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

cumulative effects of a change.

SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company has adopted the provision of SFAS 154, as applicable, beginning in fiscal 2006.

F-16

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

2. ACQUISITIONS

On October 17, 2005, the Company acquired Soltre Technology, Inc. ("Soltre"), a Delaware corporation. Soltre is a Los Angeles, California based specialty provider of consulting and technology services. The acquisition was effective as of September 1, 2005, and was accomplished through a stock purchase transaction pursuant to which Soltre, through an exchange of all of its outstanding shares of stock for cash and shares of RCM's common stock, became a wholly-owned subsidiary of the Company. Accordingly, the results of operations of the acquired company have been included in the consolidated results of operations of the Company from the date of acquisition and are included in the Information Technology segment.

The purchase consideration paid to the former stockholders of Soltre consisted of \$1,868,000 cash, 100,000 shares of RCM's common stock, par value \$.05, valued at \$632,000 and 100,000 of stock options valued at \$330,000 and \$2,400,000 of deferred consideration contingent upon Soltre achieving certain base levels of operating income for each of the three twelve month periods following the purchase. A Deferred Consideration and Earnout payment of \$1,218,381 was paid in 2006 to the former shareholders of Soltre for the first twelve-month period following the acquisition. The amount was added to Goodwill on the Consolidated Balance Sheet. An additional earn-out payment may be made to the former stockholders at the end of each of the second and third remaining twelve-month periods following the purchase, to the extent that operating income exceeds these base levels.

On April 17, 2006, the Company purchased the operating assets of Techpubs, LLC ("Techpubs"), a Rhode Island limited liability company. Techpubs is a specialty provider of engineering services. Accordingly, the results of operations of the acquired company have been included in the consolidated results of operations of the Company from the date of acquisition and are included in the Engineering segment.

The purchase consideration at closing consisted of \$600,000 in cash, legal cost of \$22,000 and \$300,000 of deferred consideration contingent upon achieving certain base levels of operating income for each of the twelve month periods following the purchase.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

The acquisitions have been accounted for in accordance with SFAS No. 141, "Business Combinations."

The allocation of the purchase price for the two acquisitions including approximately \$1.2 million of earnout consideration paid in 2006 is as follows:

	(In thousands)	Period of Amortization- Years
	-----	-----
Equipment	\$109	
Non-compete agreements	145	5
Customer relationships	930	3-5
Goodwill	3,486	

	\$4,670	
	=====	

The annual sales of Soltre for the twelve months ended December 31, 2004 was approximately \$3.7 million.

The annual sales of Techpubs for the twelve months ended December 31, 2005 was approximately \$1.0 million.

F-17

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

2. ACQUISITIONS (CONTINUED)

In connection with certain acquisitions, the Company is obligated to pay contingent consideration to the selling shareholders upon the acquired business achieving certain earnings targets over periods ranging from two to three years following the acquisition. In general, the contingent consideration amounts fall into two categories: (a) Deferred Consideration - amounts are due, provided that the acquisition achieves a base level of earnings, which has been, determined at the time of acquisition and (b) Earnouts - amounts payable are not fixed and are based on the growth in excess of the base level earnings. The Company's outstanding Deferred Consideration obligations, which relate to various acquisitions, are anticipated to result in approximately the following payments:

Year Ending	Amount (in thousands)
-----	-----
December 29, 2007	\$800
December 27, 2008	800
January 2, 2010	100
-----	-----

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

\$1,700

=====

The Deferred Consideration and Earnouts, when paid, will be recorded as additional purchase consideration and added to goodwill on the consolidated balance sheet. Earnouts cannot be estimated with any certainty.

The following (unaudited) results of operations have been prepared assuming the acquisition had occurred as of the beginning of the periods presented. Those results are not necessarily indicative of results of future operations nor of results that would have occurred had the acquisition been consummated as of the beginning of the periods presented.

(In thousands, except per share amounts)	Fifty-Two Weeks Ended December 30, 2006	Fifty-Two Weeks Ended December 31, 2005	Fifty-Three Weeks Ended January 1, 2005
Revenues	\$202,220	\$187,275	\$173,908
Operating income	7,814	6,993	3,647
Net income	\$6,376	\$4,043	\$2,359
Earnings per share	\$.53	\$.34	\$.20

3. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	December 30, 2006	December 31, 2005
Equipment and furniture	\$1,594,654	\$1,761,454
Computers and systems	7,589,919	7,585,782
Leasehold improvements	901,884	690,858
	10,086,457	10,038,094
Less: accumulated depreciation and amortization	5,694,513	6,017,593
	\$4,391,944	\$4,020,501

The Company writes off fully depreciated assets each year. In fiscal 2006, 2005 and 2004, the write offs were \$1,243,000, \$881,000 and \$438,000, respectively.

F-18

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

4. GOODWILL AND INTANGIBLES

SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142") requires the Company 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 is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of our 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 November 30. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill. Future changes in the industry could impact the results of future annual impairment tests. Goodwill at December 30, 2006 and December 31, 2005 was \$39,329,000 and \$37,660,000, respectively. There can be no assurance that future tests of goodwill impairment will not result in further impairment charges.

During the fourth quarter of fiscal year 2004, the review indicated that there was an impairment of value, which resulted in a \$2.2 million charge to expense for the fiscal year ended January 1, 2005, in order to reflect the appropriate carrying value of goodwill. The aforementioned impairment was in a reporting unit within the Company's Information Technology business segment. The results of the 2005 and 2006 impairment testing indicated no impairment of goodwill.

The changes in the carrying amount of goodwill for the years ended December 30, 2006 and December 31, 2005 are as follows (in thousands):

	Information Technology	Engineering	Commercial
Balance as of January 1, 2005	\$28,315	\$7,528	
Goodwill acquired during the year	1,817		
Balance as of December 31, 2005	30,132	7,528	
Goodwill acquired during the year	1,218	451	
Balance as of December 30, 2006	\$31,350	\$7,979	

The following table reflects the components of intangible assets, excluding goodwill (in thousands):

	December 30, 2006		December 31,	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Ac Am

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

 Definite-lived intangible assets

Non-compete agreements	\$145	\$35	\$114
Customer relationships	930	371	790

Total	\$1,075	\$406	\$904
-------	---------	-------	-------

=====

F-19

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

4. GOODWILL AND INTANGIBLES (CONTINUED)

Amortization of the definite-lived intangible assets is as follows (in thousands):

Year	Amount
2007	\$320
2008	233
2009	57
2010	49
2011	10
	\$669

=====

5. ACCOUNTS PAYABLE

Accounts payable and accrued expenses consist of the following at December 30, 2006 and December 31, 2005:

	December 30, 2006	December 31, 2005
Accounts payable - trade	\$6,936,096	\$5,649,920
Due to sellers	231,039	794,894
Reserve for litigation	150,000	8,534,313
Total	\$7,317,135	\$14,979,127

=====

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

6. LINE OF CREDIT

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, administrative agent for a syndicate of banks, which provides for a \$25 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.

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. The weighted average interest rates under the Revolving Credit Facility for the years ended December 30, 2006 and December 31, 2005 were 9.05% and 6.31%, respectively. During 2006 and 2005, the Company's outstanding borrowings ranged from \$-0- to \$7.1 million and \$3.9 million to \$7.0 million, respectively. At December 30, 2006, there were no outstanding borrowings under this facility and at December 31, 2005, the amount outstanding under this facility was \$3.9 million. At December 30, 2006, there was a letter of credit outstanding for \$116,000, which is used as collateral for a lease obligation. At December 30, 2006, the Company had availability for additional borrowing under the Revolving Credit Facility of \$24.9 million.

F-20

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

7. STOCK BASED COMPENSATION

Common Stock Reserved

Shares of unissued common stock were reserved for the following purposes:

	December 30, 2006	December 31, 2005
Exercise of options outstanding	1,768,000	1,935,483
Future grants of options	29,194	36,486
Total	1,797,194	1,971,969

Incentive Stock Option Plans

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

1992 Incentive Stock Option Plan (the 1992 Plan)

The 1992 Plan, approved by the Company's stockholders in April 1992, and amended in April 1998, provided for the issuance of up to 500,000 shares of common stock per individual to officers, directors, and key employees of the Company and its subsidiaries, through February 13, 2002, at which time the 1992 Plan expired. The options issued were intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code. The option terms were not permitted to exceed ten years and the exercise price was not permitted to be less than 100% of the fair market value of the shares at the time of grant. The Compensation Committee of the Board of Directors determined the vesting period at the time of grant for each of these options. At December 30, 2006, options to purchase 83,455 shares of common stock were outstanding.

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

The 1994 Plan, approved by the Company's stockholders in May 1994, and amended in April 1998, provided for issuance of up to 110,000 shares of common stock to non-employee directors of the Company through February 19, 2004, at which time the 1994 Plan expired. Options granted under the 1994 Plan were granted at fair market value at the date of grant, and the exercise of options is contingent upon service as a director for a period of one year. Options granted under the 1994 Plan terminate when an optionee ceases to be a Director of the Company. At December 30, 2006, options to purchase 70,000 shares of common stock were outstanding.

1996 Executive Stock Option Plan (the 1996 Plan)

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provides for issuance of up to 1,250,000 shares of common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006. Options are generally granted at fair market value at the date of grant. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. At December 30, 2006, options to purchase 1,018,545 shares of common stock were outstanding.

2000 Employee Stock Incentive Plan (the 2000 Plan)

The 2000 Plan, approved by the Company's stockholders in April 2001, provides for issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors may award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determines the vesting period at the time of grant. At December 30, 2006, options to purchase 29,194 shares of common stock are available for future grants, and options to purchase 596,000 shares of common stock were outstanding.

F-21

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

7. STOCK BASED COMPENSATION (CONTINUED)

Incentive Stock Option Plans (Continued)

Transactions related to all stock options are as follows:

	Year Ended December 30, 2006	Weighted- Average Exercise Price	Year Ended December 31, 2005	Weighted- Average Exercise Price
Outstanding options at beginning of year	1,935,483	\$4.34	1,183,583	\$4.03
Granted	12,000	6.12	1,003,000	4.67
Cancelled	(119,388)	4.68	(45,250)	4.62
Exercised	(60,095)	3.82	(205,850)	4.15
Outstanding options at end of year	1,768,000	\$4.34	1,935,483	\$4.34
Exercisable options at end of year	1,005,000		770,150	
Option grant price per share	\$3.00 to \$7.04		\$3.00 to \$7.04	

The following table summarizes information about stock options outstanding at December 30, 2006:

Range of Exercise Prices	Number of Outstanding Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$3.00 - \$4.40	1,152,500	6.64 years	\$3.69
\$4.70 - \$7.04	615,500	6.76 years	\$4.81

Employee Stock Purchase Plan

The Company implemented an 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 common stock through payroll deductions for up to 10% of qualified compensation. During the year ended December 30, 2006, there were 33,770 shares issued under the Purchase Plan for net proceeds of \$143,829. As of December 30, 2006, there were 225,188 shares available for issuance under the Purchase Plan.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

8. RETIREMENT PLANS

Profit Sharing Plan

The Company maintains a 401(k) profit sharing plan for the benefit of eligible employees. 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. Contributions charged to operations by the Company for years ended December 30, 2006, December 31, 2005 and January 1, 2005 were \$251,000, \$100,000, and \$111,000, respectively.

Nonqualified Defined Compensation Plan

The Company implemented with shareholder approval a nonqualified deferred compensation plan, effective January 1, 2002, for officers and certain other management employees. The plan allowed for compensation deferrals for its participants and a discretionary company contribution, subject to approval of the Board of Directors. As of January 1, 2005, the fair value of the assets held in trust under the deferred compensation plan was \$677,194. The Board of Directors approved the termination of the plan as of January 14, 2005 and directed the distribution of the assets in the plan to the participants. The final distribution of the plan assets of \$661,981, as of January 14, 2005, was made on February 4, 2005.

9. COMMITMENTS

Employment Agreement

The Company has an employment agreement with its Chief Executive Officer and President, Leon Kopyt ("Mr. Kopyt"), which currently provides for an annual base salary of \$525,000 and other customary benefits. In addition, the agreement provides that Mr. Kopyt's annual bonus is based on EBITDA, defined as earnings before interest, taxes, depreciation, and amortization. As of December 30, 2006, the agreement expires on February 28, 2008. The agreement is for a rolling term of three years, which automatically extends each year for an additional one-year period on February 28 of each year. The employment agreement is terminable by the Company upon Mr. Kopyt's death or disability, or for "good and sufficient cause," as defined in the agreement.

Termination Benefits Agreement

The Company is party to a Termination Benefits Agreement with its Chief Executive Officer Leon Kopyt, amended and restated as of March 18, 1997 (the "Benefits Agreement"). Pursuant to the Benefits Agreement, following a Change in Control (as defined therein), the remaining term of Mr. Kopyt's employment is extended for five years (the "Extended Term"). If Mr. Kopyt's employment is terminated thereafter by the Company other than for cause, or

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

by Mr. Kopyt for good reason (including, among other things, a material change in Mr. Kopyt's salary, title, reporting responsibilities or a change in office location which requires Mr. Kopyt to relocate), then the following provisions take effect: the Company is obligated to pay Mr. Kopyt a lump sum equal to his salary and bonus for the remainder of the Extended Term; and the Company shall be obligated to pay to Mr. Kopyt the amount of any excise tax associated with the benefits provided to Mr. Kopyt under the Benefits Agreement. If such a termination had taken place as of December 30, 2006, Mr. Kopyt would have been entitled to cash payments of approximately \$3.5 million (representing salary and excise tax payments).

F-23

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

9. COMMITMENTS (CONTINUED)

Severance Agreement

The Company is party to a Severance Agreement with Mr. Kopyt, dated June 10, 2002 (the "Severance Agreement"). The agreement provides for certain payments to be made to Mr. Kopyt and for the continuation of Mr. Kopyt's employee benefits for a specified time after his service with the Company is terminated other than "for cause," as defined in the Severance Agreement. Amounts payable to Mr. Kopyt under the Severance Agreement would be offset and reduced by any amounts received by Mr. Kopyt after his termination of employment under his current employment and termination benefits agreements, which are supplemented and not superseded by the Severance Agreement. If Mr. Kopyt had been terminated as of December 30, 2006, then under the terms of the Severance Agreement, and after offsetting any amounts that would have been received under his current employment and termination benefits agreements, he would have been entitled to cash payments of approximately \$1.9 million, inclusive of employee benefits.

Operating Leases

The Company leases office facilities and various equipment under non-cancelable leases expiring at various dates through June 2012. Certain leases are subject to escalation clauses based upon changes in various factors. The minimum future annual operating lease commitments for leases with non-cancelable terms in excess of one year, exclusive of operating escalation charges, are as follows (in thousands):

Year ending December 31, Amount
(In thousands)

2007	\$3,041
2008	2,449
2009	2,054
2010	1,556
2011	1,292
Thereafter	556

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Total \$10,948
 =====

Rent expense for the fiscal years ended December 30, 2006, December 31, 2005 and January 1, 2005 was \$3,941,000 \$3,514,000, and \$3,671,000, respectively.

The Company subleases space at various office locations under cancelable lease agreements. During fiscal 2006, 2005 and 2004 revenues of approximately \$114,000, \$22,000, and \$109,000, respectively, were recognized under these leasing arrangements.

10. RELATED PARTY TRANSACTIONS

A director of the Company is a shareholder in a law firm that has rendered various legal services to the Company. Fees paid to the law firm have not been significant.

F-24

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

11. INCOME TAXES

The components of income tax expense (benefit) are as follows:

	Year Ended December 30, 2006	Year Ended December 31, 2005

Current		
Federal		\$930,020
State and local	\$259,006	511,427
Foreign	27,177	(122,500)
	-----	-----
	286,183	1,318,947

Deferred		
Federal	703,196	808,932
State and local	124,094	142,735
	-----	-----
	827,290	951,667

Total	\$1,113,473	\$2,270,516
=====		

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

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

	December 30, 2006	December 31, 2005	Janua 20

Tax at statutory rate (credit)	34.0%	34.0%	
State income taxes, net of Federal income tax benefit	6.2	5.7	
Stock compensation expense	4.3		
Foreign income tax effect	1.3	2.9	
Deductible amortization	(3.3)	(4.1)	
Federal tax audit adjustment (see penultimate paragraph footnote 11)	(27.4)		
Change in valuation allowance			
Non-deductible charges	1.3	(2.4)	
Other, net	(1.5)	3.0	

Total income tax expense	14.9%	39.1%	
=====			

F-25

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

11. INCOME TAXES (CONTINUED)

At December 30, 2006 and December 31, 2005, deferred tax assets and liabilities consist of the following:

	December 30, 2006	December 31, 2005
Deferred tax assets:		

Net operating loss carryforward	\$2,879,721	
Allowance for doubtful accounts	668,812	\$716,909
Reserves and accruals	195,963	165,147
Litigation reserve	60,000	3,130,284
	3,804,496	4,012,340

Deferred tax liabilities:		
Prepaid expense deferral	(591,982)	
Miscellaneous	(27,464)	
	(619,446)	

	3,185,050	4,012,340
Valuation allowance		

Net deferred tax assets	\$3,185,050	\$4,012,340
=====		

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

As of December 31, 2002, the Company had accrued approximately \$2.5 million for income tax liabilities, which related to the potential repayment of tax benefits associated with previously claimed tax deductions claimed from goodwill impairments. On June 8, 2006, the goodwill impairment deductions of approximately \$13.5 million were disallowed by the Internal Revenue Service as a deduction in the December 31, 2002 income tax return. Based upon the methodology applied by the Internal Revenue Service, these deductions are best substantiated by facts and circumstances arising during 2005 and therefore the deductions are included in the December 31, 2005 federal income tax return. This reclassification of the deduction from the year ended December 31, 2002 to the year ended December 31, 2005 results in the reversal of the income tax reserve of approximately \$1.3 million, of which approximately \$1.0 million was recorded in the three months ended July 1, 2006. Additionally, the remaining reserve primarily covered interest of approximately \$732,000 and a net operating loss disallowance of approximately \$400,000, which were paid during 2006. The full impact is included in the statement of income for the year ended December 30, 2006.

The deferred tax asset relating to the net operating loss carryforward represents the tax effect of a federal net operating loss carryforward of approximately \$8.5 million expiring in the year 2026.

The deferred tax asset relating to the litigation reserve decreased approximately \$3.1 million because of the satisfaction of a liability relating to litigation described in footnote number 15 (Contingencies).

Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

The Company has provided what it believes to be an appropriate amount of tax for items that involve interpretation of the tax law. However, events may occur in the future that will cause the Company to reevaluate the current provision and may result in an adjustment to the liability for taxes.

F-26

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

12. INTEREST EXPENSE, NET OF INTEREST INCOME

Interest expense, net of interest income consisted of the following:

	December 30, 2006	December 31, 2005	January 1, 2005
Interest expense	(\$539,187)	(\$567,683)	(\$536,099)

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Interest income	282,951	346,613	61,679
	-----	-----	-----
	(\$256,236)	(\$221,070)	(\$474,420)
	=====	=====	=====

13. SEGMENT INFORMATION

The Company follows SFAS 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which provides guidance for companies to report information about operating segments, geographic areas, and major customers. The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1).

The Company uses earnings before interest and taxes (operating income) to measure segment profit. Segment operating income includes selling, general and administrative expenses directly attributable to that segment as well as charges for allocating corporate costs to each of the operating segments. The following tables reflect the results of the segments consistent with the Company's management system (in thousands):

Fiscal 2006	Information Technology	Engineering	Commercial	Corporate
	-----	-----	-----	-----
Revenue	\$101,449	\$57,607	\$42,864	
Operating expenses (1), (2), (3)	94,799	56,569	41,287	
	-----	-----	-----	
EBITDA (3)	6,650	1,038	1,577	
Depreciation	533	495	170	
Amortization of intangibles	286	24		
	-----	-----	-----	
Operating income	5,831	519	1,407	
Interest expense, net of interest income	129	73	54	
Loss on foreign currency transactions		31		
Income taxes	850	62	201	
	-----	-----	-----	
Net income	\$4,852	\$353	\$1,152	
	=====	=====	=====	
Total assets	\$53,431	\$24,272	\$12,137	\$10,2
Capital expenditures	\$282	\$1,009	\$63	\$2

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

13. SEGMENT INFORMATION (CONTINUED)

Fiscal 2005	Information Technology	Engineering	Commercial	Corporate
Revenue	\$98,010	\$47,683	\$34,925	
Operating expenses (1)	92,173	47,425	33,798	
EBITDA (3)	5,837	258	1,127	
Depreciation	578	373	160	
Amortization of intangibles	95			
Operating income (loss)	5,164	(115)	967	
Interest expense, net of interest income	120	58	43	
Gain on foreign currency transactions		(12)		
Income taxes (benefit)	1,973	(63)	361	
Net income (loss)	\$3,071	(\$98)	\$563	
Total assets	\$54,729	\$19,316	\$11,953	\$20,7
Capital expenditures	\$275	\$125		\$1

F-28

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

13. SEGMENT INFORMATION (CONTINUED)

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Fiscal 2004	Information Technology	Engineering	Commercial	Corporate
Revenue	\$92,907	\$51,173	\$25,198	
Operating expenses (1)	88,613	48,396	25,626	
Impairment of goodwill	2,164			
EBITDA (3)	2,130	2,827	(428)	
Depreciation	628	407	115	
Amortization of intangibles	20	43	5	
Operating income	1,482	2,327	(548)	
Interest expense, net of interest income	261	144	70	
Gain on foreign currency transactions		(25)		
Income taxes (benefit)	262	475	(133)	
Net income	\$959	\$1,733	(\$485)	
Total assets	\$48,556	\$23,275	\$6,643	\$20,9
Capital expenditures	\$17	\$44	\$5	\$3

F-29

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

13. SEGMENT INFORMATION (CONTINUED)

The following reconciles consolidated operating income to the Company's pretax income (in thousands):

	December 30, 2006	December 31, 2005	Januar 200
--	----------------------	----------------------	---------------

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Consolidated operating income	\$7,757	\$6,016
Interest expense, net of interest income	(256)	(221)
(Loss) gain on foreign currency transactions	(31)	12

Consolidated pretax income	\$7,470	\$5,807
=====		

The Company derives a majority of its revenue from companies headquartered 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 and Canada. Revenues and fixed assets by geographic area for the years ended December 30, 2006, December 31, 2005, and January 1, 2005 are as follows (in thousands):

	December 30, 2006	December 31, 2005	January 1, 2005

Revenues			
United States	\$190,644	\$165,808	\$149,
Canada	11,276	14,810	20,

	\$201,920	\$180,618	\$169,
=====			
Fixed Assets			
United States	\$4,338	\$3,873	\$4,
Canada	54	147	

	\$4,392	\$4,020	\$4,
=====			

14. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Year Ended December 30, 2006

	Sales	Gross Profit	Net Income

1st Quarter	\$47,053,786	\$12,043,109	\$811,325
2nd Quarter	49,024,924	12,197,832	1,858,925
3rd Quarter	51,649,791	12,951,555	1,349,424
4th Quarter	54,191,558	13,315,876	2,336,589

Total	\$201,920,059	\$50,508,372	\$6,356,263
=====			

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

14. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

Year Ended December 31, 2005

	Sales	Gross Profit	Net Income
1st Quarter	\$44,081,579	\$10,108,434	\$832,663
2nd Quarter	46,324,401	11,057,047	1,168,035
3rd Quarter	43,390,661	10,153,216	716,844
4th Quarter	46,821,523	11,363,836	818,544
Total	\$180,618,164	\$42,682,533	\$3,536,086

15. CONTINGENCIES

In late 1998, two shareholders who were formerly officers and directors of the Company filed suit against the Company alleging that the Company wrongfully limited the number of shares of the Company's common stock that could have been sold by the plaintiffs under a registration stock agreement entered into in connection with the acquisition transaction pursuant to which the plaintiffs became shareholders of the Company. The plaintiffs claimed damages in an amount equal to the difference between the amounts for which they could have sold their RCM shares during the 12-month period ended March 11, 1999, but for the alleged wrongful limitation on their sales, and the amount for which the plaintiffs sold their shares during that period and thereafter.

A trial resulted in an August 2003 judgment in favor of the plaintiffs for \$7.6 million that the Company unsuccessfully appealed in the New Jersey appellate courts. In June 2006, \$8,622,458 was paid to the plaintiffs to satisfy and settle the judgment, which was paid from a previously funded escrow account that was classified as restricted cash. The financial statements as of and for the year ended December 28, 2002 were charged for the expense relating to the settlement.

In November 2002, the Company brought suit on professional liability claims against the attorneys and law firms who served as its counsel in the above-described acquisition transaction and in its subsequent dealings with the plaintiffs concerning their various relationships with the Company resulting from that transaction. In its lawsuit against the former counsel, the Company is seeking complete indemnification with respect to (1) its costs and counsel fees incurred in defending itself against the claims of the plaintiffs; (2) the amount paid to satisfy the judgment; and (3) its costs and counsel fees incurred in the prosecution of the legal malpractice action itself. In September 2005, the Company and the various attorney and

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

law firm defendants agreed to the dismissal of the original suit and the filing of a new action against the same defendants in another section of the Superior Court of New Jersey. The complaint in the new action, in which the Company has asserted certain additional claims against the defendants, was filed in October 2005. In February 2007, the Company reached a settlement with one of the law firm defendants resulting in the recovery of \$800,000. Discovery proceedings are continuing with the other defendants, and a trial will likely be scheduled for the latter part of 2007.

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 or may not be covered by insurance.

F-31

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
RCM Technologies, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of RCM Technologies, Inc. (a Nevada corporation) and Subsidiaries as of December 30, 2006 and December 31, 2005 and the related consolidated statements of income, changes in stockholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 30, 2006 (52 weeks, 52 weeks and 53 weeks, respectively). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RCM Technologies, Inc. and Subsidiaries as of December 30, 2006 and December 31, 2005, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, on January 1, 2006.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

/s/ Grant Thornton LLP

 Grant Thornton LLP
 Philadelphia, Pennsylvania
 March 19, 2007

F-32

SCHEDULE I

 RCM TECHNOLOGIES, INC. (PARENT COMPANY)
 CONDENSED FINANCIAL INFORMATION OF REGISTRANT
 BALANCE SHEET
 December 30, 2006 and December 31, 2005

ASSETS

	December 30, 2006	Decem 2

Current assets		
Prepaid expenses and other assets	\$2,515	

Other assets		
Long-term receivables from affiliates	83,624,536	7

Total assets	\$83,628,051	\$7
=====		

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 30, 2006	Decem 2

Current liabilities		
Accounts payable and accrued expenses	\$233,789	

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Stockholders' equity		
Common stock	591,107	
Foreign currency translation adjustment	1,001,488	
Additional paid in capital	101,559,302	10
Accumulated deficit	(19,758,635)	(2)
<hr/>		
Total stockholders' equity	83,393,262	7
<hr/>		
Total liabilities and stockholders' equity	\$83,627,051	\$7
<hr/> <hr/>		

The "Notes to Consolidated Financial Statements" of RCM Technologies, Inc. and subsidiaries are an integral part of these statements.

F-33

SCHEDULE I

RCM TECHNOLOGIES, INC. (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF INCOME
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

	December 30, 2006	December 31, 2005	January 1, 2005
Operating expenses			
Administrative	\$1,445,028	\$1,137,920	\$633,1
Operating loss	(1,445,028)	(1,137,920)	(633,1
Management fee income	1,445,028	1,137,920	633,1
Income before income in subsidiaries			

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Equity in earnings of subsidiaries	6,356,263	3,536,086	2,206,8

Net income	\$6,356,263	\$3,536,086	\$2,206,8
=====			

The "Notes to Consolidated Financial Statements" of RCM Technologies, Inc. and subsidiaries are an integral part of these statements.

F-34

SCHEDULE I

RCM TECHNOLOGIES, INC. (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS
Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

December 30,
2006

December 31,
2005

Cash flows from operating activities:

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Net income	\$6,356,263	\$3,536,086

Adjustments to reconcile net income to net cash provided by operating activities:		
Recognition of stock based compensation	955,522	
Equity in deficiency in assets of subsidiaries	(6,356,263)	(3,536,086)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	5,002	22,032
Accounts payable and accrued expenses	112,807	16,344
	(5,282,932)	(3,548,005)

Net cash provided by operating activities	1,073,331	38,376

Cash flows from investing activities:		
Increase in long-term receivables from subsidiaries	(1,457,815)	(1,283,879)

Net cash used in investing activities	(1,457,815)	(1,283,879)

Cash flows from financing activities:		
Sale of stock for employee stock purchase plan	143,829	146,378
Exercise of stock options	229,307	853,481

Net cash provided by financing activities	373,136	999,859

Effect of exchange rate changes on cash and cash equivalents	11,348	245,644

Net increase in cash and equivalents		
Cash and equivalents at beginning of year		

Cash and equivalents at end of year	\$	\$
=====		

The "Notes to Consolidated Financial Statements" of RCM Technologies, Inc. and subsidiaries are an integral part of these statements.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

SCHEDULE II

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
 Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

Column A	Column B	Column C	Column D
Description	Balance at Beginning of Period	Additions	
		Charged to Costs and Expenses	Charged to Other Accounts
Year Ended December 30, 2006			
Allowance for doubtful accounts on trade receivables	\$1,792,000	\$294,000	
Year Ended December 31, 2005			
Allowance for doubtful accounts on trade receivables	\$1,862,000	\$276,000	
Year Ended January 1, 2005			
Allowance for doubtful accounts on trade receivables	\$1,854,000	\$436,000	

F-36

EXHIBIT INDEX

- (10) (o) Compensation Arrangements for Named Executive Officers.
- (10) (p) Compensation Arrangements for Directors.

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

- (11) Computation of Earnings Per Share.
- (21) Subsidiaries of the Registrant.
- (23) Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
- 32.1 Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002.
- 32.2 Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002.

EXHIBIT 10 (o)

RCM TECHNOLOGIES, INC.

Compensation Arrangements for Named Executive Officers

Stanton Remer. Executive Vice President, Chief Financial Officer and Treasurer. The Company on an at-will basis pursuant to an oral agreement employs Mr. Remer. In addition to standard medical, disability, life insurance, 401(k) and employee stock incentive benefits available to all eligible employees, he is eligible for the Executive Medical Supplementary Plan available to the named executive officers, the Executive Stock Option Plan available to officers and key employees and an auto allowance available to certain middle managers and above. Mr. Remer received a base salary of \$225,000 in 2006. His bonus is compensated according to a Schedule of Compensation approved by the Compensation Committee on December 17, 1997, pursuant to which the Company pays a bonus of .002 of the Company's EBITDA, defined as earnings before income taxes, depreciation and amortization, on a consolidated basis within 60 days following the close of the fiscal year. A further bonus of .002 of EBITDA is payable to Mr. Remer on a discretionary basis.

Rocco Campanelli. Executive Vice President. The Company on an at-will basis pursuant to an oral agreement employs Mr. Campanelli. In addition to standard medical, disability, life insurance, 401(k) and employee stock incentive benefits available to all eligible employees, he is eligible for the Executive Medical Supplementary Plan available to the named executive officers, the Executive Stock Option Plan available to officers and key employees and an auto allowance available to certain middle managers and above. Mr. Campanelli received a base salary of \$225,000 in 2006. His bonus is based on a percentage of divisional Engineering net operating income above certain threshold targets.

Kevin D. Miller. Senior Vice President. The Company on an at-will basis pursuant to an oral agreement employs Mr. Miller. In addition to the standard medical, disability, life insurance, 401(k) and employee stock incentive benefits available to all eligible employees, he is eligible for the Executive Medical Supplementary Plan available to the named executive officers, the Executive Stock Option Plan available to officers and key employees and an auto allowance available to certain middle managers and above. Mr. Miller received a base

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

salary of \$225,000 in 2006. He is eligible for a discretionary bonus.

EXHIBIT 10 (p)

RCM TECHNOLOGIES, INC.

Compensation Arrangements for Directors

Directors who are RCM Technologies, Inc employees are not compensated for their services as directors.

Non-employee directors, except as set forth below, each receive \$24,000 in annual compensation for service on the Board, payable in equal monthly installments in cash.

In addition, each non-employee director receives \$750 payable in cash for each in-person meeting of the full Board attended by that director, and \$300 for each meeting of a committee (in excess of four meetings per year of that committee), whether in-person or telephonic, attended by that director.

Norman S. Berson, one of the non-employee directors, is of counsel to a law firm that from time to time performs services for the Company. Fees paid by the Company to this law firm are not significant or material. Nevertheless, Mr. Berson has voluntarily declined to accept compensation for his service on the Board.

EXHIBIT 11

COMPUTATION OF EARNINGS PER COMMON SHARE

Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

	December 30, 2006	December 31, 2005

Diluted earnings		
Net income applicable to common		
stock	\$6,356,263	\$3,536,086
=====		
Shares		
Weighted average number of common		
shares outstanding	11,773,301	11,456,757
Common stock equivalents	261,364	274,834

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

Total	12,034,665	11,731,591
=====		
Diluted earnings per common share	\$.53	\$.30
=====		
Basic		
Net income applicable to common stock	\$6,356,263	\$3,536,086
=====		
Shares		
Weighted average number of common shares outstanding	11,773,301	11,456,757
=====		
Basic earnings per common share	\$.54	\$.31
=====		

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Business Support Group of Michigan, Inc.
Cataract, Inc.
Programming Alternatives of Minnesota, Inc.
RCMT Delaware, Inc.
RCM Technologies (USA), Inc.
Soltre Technology, Inc.

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

RCM Technologies, Inc.

We have issued our report dated March 19, 2007 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the application of Statement of Financial Accounting Standard No. 123(R) as of January 1, 2006) accompanying the consolidated financial statements and related schedules included in the 2006 Annual Report of RCM Technologies, Inc. and Subsidiaries on Form 10-K for the year ended December 30, 2006. We hereby consent to the incorporation by reference of said report in the Registration Statements of RCM Technologies, Inc. on Forms S-8 (File No. 33-61306, effective April 21, 1993, File No. 33-80590, effective June 22, 1994, File No. 333-48089, effective March 17, 1998, File No. 333-52206, effective December 19, 2000 and File No. 333-52480, effective December 21, 2000).

/s/Grant Thornton LLP

Grant Thornton LLP
Philadelphia, Pennsylvania
March 19, 2007

EXHIBIT 31.1

CERTIFICATION

I, Leon Kopyt, certify that:

1. I have reviewed this annual report on Form 10-K of RCM Technologies, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 22, 2007

/s/ Leon Kopyt

Leon Kopyt
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Stanton Remer, certify that:

1. I have reviewed this annual report on Form 10-K of RCM Technologies, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 22, 2007

/s/ Stanton Remer

Stanton Remer
Executive Vice President
Chief Financial Officer, Treasurer,
and Secretary

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of RCM Technologies, Inc. (the

Edgar Filing: RCM TECHNOLOGIES INC - Form 10-K

"Company") for the year ended December 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leon Kopyt, President & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended (15 U.S.C. section 78m (a)); and (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Leon Kopyt

Leon Kopyt
Chief Executive Officer
March 22, 2007

A signed original of this written statement required by Section 906 has been provided to RCM Technologies, Inc. and will be retained by RCM Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of RCM Technologies, Inc. (the "Company") for the year ended December 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanton Remer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended (15 U.S.C. section 78m (a)); and (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stanton Remer

Stanton Remer
Executive Vice President
Chief Financial Officer
March 22, 2007

A signed original of this written statement required by Section 906 has been provided to RCM Technologies, Inc. and will be retained by RCM Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.