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RCM TECHNOLOGIES INC
Form 10-K
March 20, 2008

FORM 10-K

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 29, 2007
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 Securities registered pursuant to Section 12(b) of the Act:
State of Incorporation

2500 McClellan Avenue, Suite 350, Title of each class
Pennsauken, New Jersey 08109-4613 None

Address of principal Name of each exchange on which registered
executive offices

None

95-1480559 IRS Employer Identification No. Securities registered pursuant
to Section 12(g) of the Act:

(856) 486-1777 Title of each class

Registrant's telephone number, including area code: Common Stock, par value \$.05

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

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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. [X]

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

Large Accelerated Filer ___ Accelerated Filer ___
Non-Accelerated Filer ___ Smaller Reporting Company X

(Do not check if a smaller reporting company)

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 \$89,628,000 based upon the closing price of \$7.79 per share of the registrant's common stock on June 29, 2007 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 18, 2008: 12,058,689.

Documents Incorporated by Reference

Portions of the definitive proxy statement for the registrant's 2008 Annual Meeting of Stockholders (the "2008 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 2008 Proxy Statement is not filed by April 27, 2008, 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.

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PART I

Private Securities Litigation Reform Act Safe Harbor Statement

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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," "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.

General

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 has been an innovative leader in the design, development, and delivery of these services to commercial and government sectors for more than 35 years. Over the years, the Company has developed and assembled an attractive, diverse and extensive portfolio of capabilities, service offerings and delivery options, established a proven record of performance and credibility, and built an efficient pricing structure. This combination offers clients a compelling value proposition with the potential to substantially accelerate the successful attainment of their business objectives.

RCM consists of three operating segments: Information Technology, Engineering and Commercial Services. The Company's Information Technology, or IT, segment provides enterprise business solutions, application services, infrastructure solutions, competitive advantage & productivity solutions, life sciences solutions and other selected vertical market specific offerings. RCM's Engineering segment provides engineering and design, engineering analysis, technical writing and technical support services. The Company's Commercial Services segment provides health care contract professionals as well as clerical and light industrial temporary personnel.

The Company services some of the largest national and international companies in North America as well as a lengthy roster of Fortune 1000 and mid-sized businesses in such industries as Aerospace/Defense, Energy, Financial Services, Life Sciences, Manufacturing & Distribution, the Public Sector and Technology. RCM 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 34 offices 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 29, 2007, approximately 46.2% of RCM's total revenues were derived from IT services, 33.2% from Engineering services, and the remaining 20.6% 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,

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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.

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ITEM 1. BUSINESS (CONTINUED)

Industry Overview (Continued)

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

The Company believes its target market for IT services is among middle-market companies, which typically lack the time and technical resources to satisfy all of their IT needs internally. These companies 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, which do target these companies, 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.

The Company's Engineering group continues to focus on areas of growth within the nuclear and aerospace industries.

In recent years, many businesses have been adversely impacted by higher oil prices, and 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.

In the healthcare services industry, a shortage of nurses and other medical

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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, the general economy of the United States over the past couple of years has positively affected temporary staffing businesses which 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:

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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 to build projects and solutions offerings selectively, utilizing its extensive resource base to do so.

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 is intended to 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 continues 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 transition is accomplished by pursuing additional vertical market specific solutions in conjunction or combination with longer-term based solutions, through expansion of its client relationships and by pursuing strategic alliances and partnerships.

Achieve 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

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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.

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.

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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

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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 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.

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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 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

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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 is comprised of two business groups - the IT Consulting Business Group and the Solutions Business Group. The IT Consulting Business Group consists of three business units in North America - the Eastern Region, the Central Region and the Western Region. The Solutions Business Group consists of three business units - IT Enterprise Management, Enterprise Business Solutions and Life Sciences.

The RCM Enterprise Business Solutions Group's core business mission is to continue its strategic transformation designed to focus the Company on developing proprietary customized solutions and intellectual property by bundling software, systems, tools and services into integrated business and technology solutions.

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

Among those IT services provided by RCM to its clients are:

- o Enterprise Business Solutions
- o Application Services
- o Infrastructure Solutions
- o Competitive Advantage & Productivity Solutions
- o Life Sciences Solutions

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

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

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ITEM 1. BUSINESS (CONTINUED)

Information Technology (Continued)

As of December 29, 2007, the Company had assigned approximately 685 information technology employees and consultants to its customers.

Engineering

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The Company's Engineering segment consists of three business units - Engineering Services and Projects, Power Systems Services USA and Power Systems Services Canada. The Engineering Services and Projects unit includes Aerospace, Manufacturing and Industrial Engineering divisions. The Power Systems units focus primarily on the nuclear power, fossil fuel and electric utility industries.

RCM provides a full range of Engineering services including Engineering & Design, Engineering Analysis, Engineer-Procure-Construct, Configuration Management, Hardware/Software Validation & Verification, Quality Assurance, Technical Writing & Publications, Manufacturing Process Planning & Improvement, Reliability Centered Maintenance (RCM), Component & Equipment Testing and Risk Management Engineering. Engineering services are provided at the site of the client or, less frequently, at the Company's own facilities.

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 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 29, 2007, the Company had assigned approximately 437 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.

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As of December 29, 2007, the Company had assigned approximately 1,200 commercial services personnel to its customers.

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ITEM 1. BUSINESS (CONTINUED)

Branch Offices

The Company's organization consists of 34 branch offices located in the United States, Puerto Rico and Canada. The locations and services of each of the branch offices are set forth in the table below.

| LOCATION | NUMBER OF OFFICES | SERVICES PROVIDED (1) |
|---------------|----------------------|--------------------------|
| USA | | |
| California | 9 | IT, C |
| Connecticut | 2 | E |
| Florida | 1 | C |
| Maryland | 1 | IT |
| Massachusetts | 1 | IT |
| Michigan | 2 | IT, E |
| Minnesota | 1 | IT |
| Missouri | 1 | IT |
| New Jersey | 2 | IT, E |
| New York | 3 | IT, E, C |
| Pennsylvania | 1 | C |
| Rhode Island | 1 | E |
| Texas | 2 | IT |
| Wisconsin | 3 | IT, E |
| | - | |
| | 30 | |
| | | |
| 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 markets 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.

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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, Goodwill and Definite-Long Lived Assets by geographic area for the year ended and as of December 29, 2007 are as follows (in thousands):

| | Revenues | Goodwill | Definite-Long Lived Assets |
|---------------|-----------|----------|----------------------------|
| United States | \$198,032 | \$34,791 | \$349 |
| Canada | 16,177 | 4,797 | - |
| | \$214,209 | \$39,588 | \$349 |

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 or 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

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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.

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ITEM 1. BUSINESS (CONTINUED)

Sales and Marketing (Continued)

The Company's larger representative customers include 3M, BancTec, Bristol Myers Squibb, Bruce Power, Entergy, FlightSafety International, MSC Industrial Supply, Schering Plough, United Technologies, U.S. Department of the Treasury, Wyeth 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 and from time to time, when appropriate, at the corporate level for national accounts.

During 2007, United Technologies accounted for 10.8% 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 29.9% and 38.3%, respectively, of the Company's revenues for 2007.

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

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Dell PowerEdge servers. The branch offices of the Company are networked to the corporate offices via AT&T-managed VPN, which enables 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.

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.

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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.

Over the past year, RCM has engaged in three major strategic initiatives to improve upon its ability to secure data, deliver services and improve on its communication infrastructure.

In September 2007, RCM initiated deployment of a new mail architecture based on the Microsoft Exchange 2007 platform. The system is comprised of redundant mail routing servers and clustered mailbox servers attached to a Storage Area Network (SAN) This new messaging platform has the current capacity of four Terabytes (TB), with the capability of scaling to 18 Terabytes (TB). In addition to the system being sized for VOIP integration, web access to the mail server is only allowed via secure HTTPs protocol.

RCM is currently converting its WAN architecture from the current IPsec public VPN to a private Multiple Packet Label Switching (MPLS) network hosted by AT&T. The move to a service oriented architecture provides numerous benefits, including, voice, video and data convergence, Class and Quality of Service (CoS / QoS), improved security and manageability. Throughout RCM offices, perimeter devices, such as firewalls, routers and core switches are in the process of also being replaced, in order to accommodate voice, video and data streams.

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Upon completion of the new MPLS network, RCM expects to begin rollout of its VOIP initiative. This enterprise solution will be based on Cisco Call Manager, Unity voicemail, Mobility Manager, Meeting Place, Fax Server and Video Presence and will unify all RCM offices in the US and Canada. Summary of benefits include four digit extension calls between RCM offices, email and voicemail unification, soft one and mobile phone integration, video and web conferencing, central and email enabled faxing.

The above initiatives are expected to improve communication within RCM and to deliver exceptional services to its clients.

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.

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, NJ, provides WAN, ERP and messaging redundancy services should the primary data center facility at Parsippany, NJ, become inoperable.

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ITEM 1. BUSINESS (CONTINUED)

Other Information (Continued)

Safeguards - Business, Disaster and Contingency Planning (Continued)

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 RCM 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 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.

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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.

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 Company's operating results can be affected by the seasonal fluctuations in corporate IT and engineering expenditures. Generally, expenditures are lowest during the first quarter of the year when clients are finalizing their IT and engineering budgets. In addition, quarterly results may fluctuate depending on, among other things, the number of billing days in a quarter and the seasonality of clients' businesses. The business is also affected by the timing of holidays and seasonal vacation patterns, generally resulting in lower revenues and gross profit in the fourth quarter of each year. Extreme weather conditions may also affect demand in the first and fourth quarters of the year as certain clients' facilities are located in geographic areas subject to closure or reduced hours due to inclement weather. In addition, the Company experiences an increase in its cost of sales and a corresponding decrease in gross profit and gross margin percentage in the first fiscal quarter of each year as a result of resetting certain state and federal employment tax rates and related salary limitations.

ITEM 1. BUSINESS (CONTINUED)

Employees

As of December 29, 2007, the Company employed an administrative staff of approximately 243 people, including certified IT specialists and licensed

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engineers who, from time to time, participate in IT and engineering design projects undertaken by the Company. As of December 29, 2007, there were approximately 685 information technology and 437 engineering and technical employees and consultants assigned by the Company to work on client projects for various periods. As of December 29, 2007, there were approximately 1,200 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 of 1934, 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 filed with the SEC.

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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

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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. 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

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

Highly Competitive Business

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

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. 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 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.

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ITEM 1A. RISK FACTORS (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.

Our Acquisitions May Not Succeed

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

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

As of December 29, 2007, we had \$39.9 million of goodwill and intangible assets on our balance sheet, which represents 36.6% 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 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.

Trademarks

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

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

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backup devices, and diversity, with circuits provisioned from different geographical locations and high availability failover VPN tunnels across locations.

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.

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ITEM 1A. RISK FACTORS (CONTINUED)

Accrued Bonuses

The Company pays bonuses to certain executive management, field management and corporate employees based on, or after giving consideration to, a variety of financial performance measures. Executive management, field management, and certain corporate employees' bonuses are accrued throughout the year for payment during the first quarter of the following year, based in part upon anticipated annual results compared to annual budgets. Variances in actual results versus budgeted amounts can have a significant impact on the calculations and therefore the estimates of the required accruals. Accordingly, the actual earned bonuses may be materially different from the estimates used to determine the quarterly accruals.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company provides specialty professional consulting services, principally performed at various client locations, through 34 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

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10,200 square feet and are leased at a rate of \$13.39 per square foot per annum for a term ending on 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 29, 2007.

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PART II

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

Shares of the Company's common stock are traded on The NASDAQ Global Market under the Symbol "RCMT". The following table sets forth approximate high and low sales prices for the two years in the period ended December 29, 2007 as reported by The NASDAQ Global Market:

| | Common Stock | |
|----------------|--------------|--------|
| Fiscal 2006 | High | Low |
| First Quarter | \$6.50 | \$4.91 |
| Second Quarter | 6.73 | 4.59 |
| Third Quarter | 5.90 | 4.48 |
| Fourth Quarter | \$6.75 | \$4.90 |
| Fiscal 2007 | | |
| First Quarter | \$7.90 | \$5.75 |
| Second Quarter | 8.80 | 5.86 |
| Third Quarter | 10.30 | 6.47 |
| Fourth Quarter | \$8.36 | \$4.93 |

Holders

As of March 5, 2008, the approximate number of holders of record of the Company's Common Stock was 513. Based upon the requests for proxy information in connection with the Company's 2007 Annual Meeting of Stockholders, the Company believes the number of beneficial owners of its Common Stock is approximately 2,920.

Dividends

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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.

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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 following graph compares the cumulative 5-year total return provided shareholders on RCM Technologies, Inc.'s common stock relative to 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. Management believes this peer group conducts its business operations in the same industry group as RCM Technologies, Inc.. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in the peer group, and the index on 12/31/2002 and its relative performance is tracked through 12/29/2007.

[GRAPHIC OMITTED][GRAPHIC OMITTED]

| Total Return Analysis | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------------------|---------|----------|----------|----------|---------|
| RCM Technologies, Inc. | \$100.0 | \$188.52 | \$128.67 | \$130.43 | \$153.2 |
| NASDAQ Composite | \$100.0 | \$149.75 | \$164.64 | \$168.60 | \$187.8 |
| Peer Group | \$100.0 | \$141.06 | \$159.83 | \$166.08 | \$165.2 |

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ITEM 6. SELECTED FINANCIAL DATA

The selected historical consolidated financial data was derived from the

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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 the Consolidated Financial Statements of the Company, and notes thereto, included elsewhere herein. (In thousands, except earnings per share data).

| | Years Ended | | |
|--------------------------------------|--------------|--------------|--------------|
| | December 29, | December 30, | December 31, |
| | 2007 | 2006 | 2005 |
| <hr/> | | | |
| Income Statement | | | |
| Revenues | \$214,209 | \$201,920 | \$180,618 |
| Gross profit | 52,976 | 50,508 | 42,683 |
| Income before charges listed below | 7,500 | 7,622 | 3,593 |
| Amortization, net of tax | (320) | (310) | (57) |
| Goodwill impairment, net of tax | | | |
| Stock based compensation, net of tax | (411) | (956) | |
| Net income | \$6,769 | \$6,356 | \$3,536 |
| Earnings Per Share (1) | | | |
| Net income: | | | |
| Basic | \$.57 | \$.54 | \$.31 |
| Diluted | \$.54 | \$.53 | \$.30 |

| | December 29, | December 30, | December 31, |
|-----------------------|--------------|--------------|--------------|
| | 2007 | 2006 | 2005 |
| <hr/> | | | |
| Balance Sheet | | | |
| Working capital | \$43,541 | \$38,844 | \$33,032 |
| Total assets | 109,714 | 100,040 | 106,773 |
| Long term liabilities | - | - | - |
| Total liabilities | 17,666 | 16,647 | 31,084 |
| Stockholders' equity | \$92,048 | \$83,393 | \$75,689 |

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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 substantial, resulting in significant volatility in the Company's financial performance.

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RCM's operational performance gained momentum in 2006 with a moderate increase in revenues and earnings as compared to the preceding years. This increase was attributed to an improvement in the general economy, strength in the Company's sector and increased capital spending by clients in selected markets. All three major business segments of the Company benefited from stronger economic conditions in 2006. During the first half of 2007, RCM's financial performance continued to show modest year over year improvement. During the second half of 2007, however, business activity began to decelerate moderately as compared to the second half of the prior year due to a severe slowdown in several of RCM's markets, which impacted the overall economy. RCM continues to be vigilant in monitoring its operating cost structure with a strong focus on working capital management 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. The Company is committed to optimizing its business model as a single-source premier provider of business and technology solutions with a strong vertical focus offering an integrated suite of services through a global delivery platform.

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

Nonetheless, the Company continues to believe that businesses must implement more advanced 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. The Company believes that its current and prospective clients are continuing to evaluate the potential for outsourcing business critical systems, applications, and processes.

The Company provides project management and consulting services, which are billed based on either agreed-upon fixed fees or hourly rates, or a combination of both. The billing rates and profit margins for project management and solutions services are higher than those for professional consulting services. The Company generally endeavors to expand its sales of higher margin solutions and project management services. The Company also realizes 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 the Company's consultants based upon their skill level, experience and the type of work performed.

The majority of the Company's services are provided under purchase orders. Contracts are utilized on certain of the more complex assignments where the engagements are for longer terms or where precise documentation on the nature and scope of the assignment is necessary. Although contracts normally relate to longer-term and more complex engagements, they do not obligate the customer to purchase a minimum level of services and are generally terminable by the customer on 60 to 90 days' notice. Revenues are recognized when services are provided.

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 the Company's corporate marketing, administrative and reporting responsibilities and acquisition program. The Company records these expenses when incurred. Depreciation relates primarily to the fixed assets of the Company. 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 Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and have created goodwill.

Critical Accounting Policies

The Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, 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 judgment increases, such judgments become even more subjective. While management believes, its assumptions are reasonable and appropriate, actual results may be materially different from estimated. Management has identified certain critical accounting policies, described below, that require significant judgment to be exercised by management.

Revenue Recognition

The Company derives its revenues from several sources. All of the Company's segments perform consulting and staffing services. The Company's Engineering Services and Information Technology 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") which 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.

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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.

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

Revenue Recognition (Continued)

Consulting and Staffing Services - Revenues derived from consulting and 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 prorated 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.

Accounts Receivable

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.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair

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market value of identifiable assets. In accordance with SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), the Company performs its annual goodwill impairment testing, by reportable unit, as of November 30th of each year, 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 the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducted its annual goodwill impairment test for 2007 as of December 1, 2007 and identified no impairments. Goodwill was \$39.6 million and \$39.3 million at December 29, 2007 and December 30, 2006, respectively.

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

Long-Lived Assets

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

Accounting for Stock Options

The Company uses used stock options to attract, retain, and reward employees for long-term service.

Effective as of January 1, 2006, the Company adopted "Share Based Payment" ("SFAS 123R"). SFAS 123R requires that the compensation cost relating to stock-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 stock-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee stock purchase plans. The impact of SFAS 123R, if it had been in effect, on the net earnings and related per share amounts of the Company's fiscal year ended December 31, 2005 was disclosed in Note 1 Summary of Significant Accounting Policies - Stock-Based Compensation of the Company's Financial Statements included in the Company's Form 10-K for the fiscal year ended December 31, 2005.

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 stock-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 123R.

Since the Company adopted SFAS 123R, effective January 1, 2006, using the modified-prospective transition method, the Company is required to record compensation expense for all awards granted after the date of adoption and for

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the unvested portion of previously granted awards that remain outstanding as of the beginning of the period of adoption. The Company measures stock-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, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance, and estimates of future earnings. As of December 29, 2007, the Company had total net deferred tax assets of \$0.7 million, primarily representing the tax effect of an allowance for doubtful accounts and alternative minimum tax carryforwards. 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 adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), on January 1, 2007. The Company recognized no material adjustments in the liability for unrecognized income tax benefits due to the adoption of FIN 48. The Company conducts its operations in multiple tax jurisdictions in the United States and Canada. With limited exceptions, the Company is no longer subject to audits by tax authorities for tax years prior to 2002. At December 29, 2007, the Company did not have any uncertain tax positions.

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

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

Accrued Bonuses

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

Forward-looking Information

The Company's growth prospects are influenced by broad economic trends. The pace of customer capital spending programs, new product launches and similar

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activities have a direct impact on the need for consulting and engineering services as well as temporary and permanent employees. When the U.S. and Canadian economies decline, the Company's operating performance could be adversely impacted. The Company believes that its fiscal discipline, strategic focus on targeted vertical markets and diversification of service offerings provides some insulation from adverse trends. However, 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 RCM's future earnings. There can be no assurance that RCM will be able to increase the fees charged to its clients in a timely manner and in a sufficient amount to cover increased costs as a result of any of the foregoing.

The employment services market is highly competitive with limited barriers to entry. RCM competes in global, national, regional, and local markets with numerous consulting, engineering and employment companies. Price competition in the industries the Company serves is significant, and pricing pressures from competitors and customers are increasing. 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.

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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 December 29, 2007 | | Year Ended December 30, 2006 | |
|-------------------------------------|---------------------------------|-----------------|---------------------------------|-----------------|
| | Amount | % of Revenue | Amount | % of Revenue |
| Revenues | \$214,209 | 100.0 | \$201,920 | 100.0 |
| Cost of services | 161,233 | 75.3 | 151,412 | 75.0 |
| Gross profit | 52,976 | 24.7 | 50,508 | 25.0 |
| Selling, general and administrative | 41,418 | 19.3 | 41,244 | 20.4 |
| Depreciation and amortization | 1,442 | .7 | 1,507 | .7 |
| | 42,860 | 20.0 | 42,751 | 21.1 |
| Operating income | 10,116 | 4.7 | 7,757 | 3.8 |
| Other income (expense) | 937 | .5 | (287) | (.1) |
| Income before income taxes | 11,053 | 5.2 | 7,470 | 3.7 |

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| | | | | |
|--------------|---------|-----|---------|-----|
| Income taxes | 4,284 | 2.0 | 1,114 | .6 |
| ----- | | | | |
| Net income | \$6,769 | 3.2 | \$6,356 | 3.1 |
| ===== | | | | |

Earnings per share

| | | |
|----------|--------|--------|
| Basic: | \$.57 | \$.54 |
| Diluted: | \$.54 | \$.53 |
| ===== | | |

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. All years presented represent 52 weeks. A 53-week year occurs periodically.

Year Ended December 29, 2007 Compared to Year Ended December 30, 2006

Revenues. Revenues increased 6.1%, or \$12.3 million, for the year ended December 29, 2007 as compared to the prior year (the "comparable prior year period"). Revenues decreased \$2.5 million in the IT segment, increased \$13.5 million in the Engineering segment, and increased \$1.3 million in the Commercial segment. The decrease in IT revenues was attributable a slower demand for the Company's IT services. Management attributes the overall increase to an improvement of the general economy for most of the year and successful marketing and sales efforts.

Cost of Services. Cost of services increased 6.5%, or \$9.8 million, for the year ended December 29, 2007 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 75.3% for the year ended December 29, 2007 from 75.0% for the comparable prior year period.

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

Year Ended December 29, 2007 Compared to Year Ended December 30, 2006 (Continued)

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses increased 0.4%, or \$174,000, for the year ended December 29, 2007 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 19.3% for the year ended December 29, 2007 as compared to 20.4% for the comparable prior year period. This decrease in percentage was primarily attributable to the spreading of fixed operating costs over a higher revenue base.

Depreciation and Amortization. Depreciation and amortization were essentially unchanged for the year ended December 29, 2007 as compared to the comparable

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prior year period.

Other Income. Other income consisted of interest income, net of interest expense and gains and losses on foreign currency transactions. For the year ended December 29, 2007, actual interest income of \$126,000 was offset by \$67,000 of interest expense. The interest income was principally earned from short-term money market deposits. Interest income, net, increased \$315,000 for the year ended December 29, 2007 as compared to the comparable prior year period. This increase was primarily due to an increase in interest income, and an overall decrease in interest on the line of credit due to fewer borrowings in the current year, as compared to the comparable prior year period. Gains on foreign currency transactions increased \$109,000 because of the strengthening of the Canadian Dollar as compared to the U. S. Dollar during the year ended December 29, 2007. Included in other income was an \$800,000 gain from a legal settlement (see footnote 15 to the financial statements).

Income Tax. Income tax expense increased 284.6%, or \$3.2 million, for the year ended December 29, 2007 as compared to the comparable prior year period. The increase was primarily attributable to a reversal of \$1.3 million of previously accrued income taxes in the year ended December 30, 2006, 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. As a result, the effective tax rate was 38.8% for the year ended December 29, 2007 as compared to 14.9% in the year ended December 30, 2006. The effective income tax rate for 2006 without the \$1.3 million reversal would have been 32.3%.

Goodwill Impairment. SFAS 142 requires the Company to perform a goodwill impairment test on at least an annual basis. The results of the 2007, 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.

Net Income. Net income totaled \$6.8 million, or 3.2% of revenue in 2007 as compared to \$6.4 million, or 3.1% of revenue in 2006. Included in 2006 was a reversal of \$1.3 million of previously accrued income taxes. If the reversal of the accrued income taxes of \$1.3 million had not occurred in 2006, net income as a percentage of revenues would have been 2.5%.

Segment Discussion (See Footnote 13)

Information Technology

IT revenues of \$99.0 million in 2007 represented a decrease of \$2.5 million, or 2.5%, compared to 2006. The decrease in revenue was attributable to a decrease in demand for IT services. EBITDA for the IT segment was \$5.9 million, or 51.3% of the overall EBITDA, for 2007 as compared to \$6.7 million, or 71.8% of the overall EBITDA, for 2006.

Engineering

Engineering revenues of \$71.2 million in 2007 represented an increase of \$13.5 million, or 23.5%, compared to 2006. The increase in revenue was attributable to an increase in demand for the Company's engineering services. The Engineering segment EBITDA was \$3.9 million, or 33.8% of the overall EBITDA, for 2007 as compared to \$1.0 million, or 11.2% of the overall EBITDA, for 2006.

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

Year Ended December 29, 2007 Compared to Year Ended December 30, 2006 (Continued)

Commercial

Commercial revenues of \$44.1 million in 2007 represented an increase of \$1.2 million, or 2.9%, compared to 2006. The increase in revenue for the Commercial segment was attributable to improvement in economic activity within this segment. The Commercial segment EBITDA was \$1.7 million, or 14.9% of the overall EBITDA, for 2007 as compared to \$1.6 million, or 17.0% of the overall EBITDA, for 2006.

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 IT segment, \$9.9 million in the Engineering segment and \$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 attributable to increased revenues in the Engineering segment, which has higher gross margins.

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 year period, as well as increased sales costs on higher revenues.

Depreciation and Amortization. Depreciation and amortization 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. 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

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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.

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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)

Net Income. Net income totaled \$6.4 million, or 3.1% of revenue in 2006 as compared to \$3.5 million, or 2.0% of revenue in 2005. Included in 2006 was a reversal of \$1.3 million of previously accrued income taxes. If the reversal of the accrued income taxes of \$1.3 million had not occurred in 2006, net income as a percentage of revenues would have been 2.5%.

Segment Discussion (See Footnote 13)

Information Technology

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.

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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 29, 2007 | December 30, 2006 |
| Operating Activities | \$8,605 | \$5,604 |
| Investing Activities | (\$851) | (\$3,401) |
| Financing Activities | \$993 | (\$3,527) |

Operating Activities

Operating activities provided \$8.6 million of cash for the year ended December 29, 2007 as compared to \$5.6 million for the comparable 2006 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 income taxes payable, an increase in accounts payable and accrued expenses, and a decrease in non-cash charge for stock based compensation expense. These changes were offset by an increase in accounts receivable, and a decrease in payroll and withheld taxes. The Company continues to institute enhanced controls and standardization over its receivables collection and disbursement processes.

Investing Activities

Investing activities used \$0.9 million for the year ended December 29, 2007 as compared to \$3.4 million for the comparable prior year period. The decrease in the use of cash for investing activities for 2007 as compared to the comparable 2006 period was primarily attributable to decreases in expenditures for property and equipment and in cash used for acquisitions.

Financing Activities

In 2007, financing activities principally consisted of the sale of stock for the employee stock purchase plan of \$144,000 and the exercise of stock options with an aggregate exercise price of \$849,000. In 2006, financing activities principally consisted of the sale of stock for the employee stock purchase plan of \$144,000 and the exercise of stock options with an aggregate exercise price of \$229,000 and debt reduction of \$3.9 million.

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. For the year ended December 29, 2007, the Company had minimal borrowing requirements; as a result, the Company incurred \$31,000 of unused line fees. The weighted average interest rate under the Revolving Credit Facility for the year ended December 30, 2006 was 9.05%. During 2007 and 2006, the Company's outstanding borrowings ranged from \$-0- to \$1.5 million and \$-0- to \$7.1 million, respectively. At December 29, 2007 and December 30, 2006, there were no outstanding borrowings under this facility. At December 29, 2007, there were letters of credit outstanding for \$1.6 million. At December 29, 2007, the Company had availability for additional borrowing under the Revolving Credit Facility of \$23.4 million.

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

Liquidity and Capital Resources (Continued)

Financing Activities (Continued)

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 12 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 12 months.

On February 29, 2008, the Company accepted a note receivable from a customer for \$6.1 million of which \$1.9 million is payable within 12 months and the remaining \$4.2 million is payable in 36 monthly installments of \$152,000, including principal and interest at 6% per annum through July 2011. The note receivable is collateralized by a second position on all of the customer's accounts receivable

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as well as the personal guarantees of all its officers. If the note receivable should become impaired because of a default by the debtor, the result could be a material adverse impact on our financial position, liquidity, and results of operations for the period in which a default may occur.

At December 29, 2007, the Company had a deferred tax asset totaling \$.7 million, primarily representing the tax effect of an allowance for doubtful accounts and an alternative minimum tax credit carryforward. The Company expects to utilize the deferred tax asset during the 12 months ending December 27, 2008 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 29, 2007 (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 | 10,289 | 3,358 | 4,653 | 2,226 |
| Total | \$10,289 | \$3,358 | \$4,653 | \$2,226 |

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 \$550,000 and other customary benefits. In addition, the agreement provides that Mr. Kopyt's annual bonus be based on EBITDA, defined as earnings before interest, taxes, depreciation and amortization. As of December 29, 2007, the agreement expires on February 28, 2010. 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 on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (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 other things, a material change in Mr. Kopyt's salary, title, reporting responsibilities or a change in office location which requires Mr.

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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 29, 2007, Mr. Kopyt would have been entitled to cash payments of approximately \$4.9 million (representing salary and excise tax payments).

Severance Agreement

The Company is party to a Severance Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (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 employment agreement and the Benefits Agreement, which are supplemented and not superseded by the Severance Agreement. If Mr. Kopyt had been terminated as of December 29, 2007, 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 \$3.1 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.

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

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

Liquidity and Capital Resources (Continued)

New Accounting Standards

Effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), an interpretation of FASB Statement No. 109 ("SFAS 109"). FIN 48 prescribes a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure and transition. Implementation of FIN 48 did not result in a cumulative effect adjustment to retained earnings. With few exceptions, the Company is no longer

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subject to audits by tax authorities for tax years prior to 2001. At December 29, 2007, the Company did not have any significant unrecognized tax benefits.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 clarifies the principle that fair value should be based on assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for the Company beginning beginning on December 28, 2007.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards, which require assets and liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and other eligible financial instruments. SFAS 159 is effective for the Company beginning beginning on December 28, 2007.

The Company is currently evaluating the impact, if any, that the adoption of SFAS 157 will have on the Company's consolidated financial statements, and has not yet determined if SFAS 159 will be adopted.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations." This statement replaces SFAS No. 141, "Business Combinations," requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. SFAS No. 141R requires costs incurred to effect the acquisition to be recognized separately from the acquisition as period costs. SFAS No. 141R also requires the acquirer to recognize restructuring costs that the acquirer expects to incur, but is not obligated to incur, separately from the business combination. In addition, this statement requires an acquirer to recognize assets and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. Other key provisions of this statement include the requirement to recognize the acquisition-date fair values of research and development assets separately from goodwill and the requirement to recognize changes in the amount of deferred tax benefits that are recognizable due to the business combination in either income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. With the exception of certain tax-related aspects described above, this statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period after December 15, 2008.

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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 Revolving Credit Facility. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of December 29, 2007, the Company's investments consisted of cash and money

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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 an incremental borrowing rate) 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(T). CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures as of the end of the period covered by this report were 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.

Management's Report on Internal Control over Financial Reporting

The report of management on our internal control over financial reporting is set forth in Item 8 of this report and is incorporated herein by reference.

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.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 shall be included in the 2008 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 shall be included in the 2008 Proxy Statement.

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

Except as set forth below, the information required by Item 12 shall be included in the 2008 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.

| 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 to be issued under the plan, exclusive of restricted stock |
|---|---|---|---|
| | (a) | (b) | |
| Equity compensation plans approved by security holders..... | 1,462,000 | \$4.10 | |
| Equity compensation plans not approved by security holders..... | _____ | _____ | |
| Total..... | 1,462,000 | \$4.10 | |

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 shall be included in the 2008 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 shall be included in the 2008 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

3. See Item (b) below.

(b) Exhibits

(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.

(3) (b) Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit A to the Registrant's Proxy Statement, dated February 6, 1996, filed with the Securities and Exchange Commission on January 29, 1996.

(3) (c) Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit B to the Registrant's Proxy Statement, dated February 6, 1996, filed with the Securities and Exchange Commission on January 29, 1996.

(3) (d) Amended and Restated Bylaws; incorporated by reference to Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1997, filed with the Securities and Exchange Commission on June 13, 1997.

(3) (e) Amendment No. 3 to Amended and Restated Bylaws (filed herewith).

(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 to 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 to 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,

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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 to 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 1996 10-K.

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PART IV (CONTINUED)

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (CONTINUED)

(b) Exhibits (Continued)

- (10) (g) 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; incorporated by reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the Securities and Exchange Commission on August 5, 2002 (the "Second Quarter 2002 10-Q").
- * (10) (h) Severance Agreement, dated June 10, 2002, between RCM Technologies, Inc. and Leon Kopyt; incorporated by reference to Exhibit 10a to the Second Quarter 2002 10-Q.
- * (10) (i) Exhibit A to Severance Agreement General Release; incorporated by reference to Exhibit 10b to the Second Quarter 2002 10-Q.
- (10) (j) 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; incorporated by reference to Exhibit 10(k) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission on February 28, 2003, as amended on March 3, 2003 (the "2002 10-K").
- (10) (k) Second Amendment and Modification to Amended And Restated Loan and Security Agreement, dated February 26, 2003, between RCM

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Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 10(1) to 2002 10-K).

- (10) (l) 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; incorporated by reference to Exhibit 99.H to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the Securities and Exchange Commission on November 6, 2003.
- (10) (m) 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; incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004, filed with the Securities and Exchange Commission on August 5, 2004.
- (10) (n) 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; incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2006, filed with the Securities and Exchange Commission on August 10, 2006.
- * (10) (o) Amendment No. 1, dated December 12, 2007, to the Amended and Restated Employment Agreement, entered into on November 30, 1996, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 12, 2007, filed with the Securities and Exchange Commission on December 12, 2007 (the "December 2007 8-K").
- * (10) (p) Amendment No. 1, dated December 12, 2007, to the Second Amended and Restated Termination Benefits Agreement, made March 18, 1997, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.2 to the December 2007 8-K.
- * (10) (q) Amendment No. 1, dated December 12, 2007, to the Severance Agreement, entered into on June 12, 2002, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.3 to the December 2007 8-K.

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PART IV (CONTINUED)

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT (CONTINUED)

(b) Exhibits (Continued)

- * (10) (r) Compensation Arrangements for Named Executive Officers.

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(Filed herewith)

- * (10) (s) Compensation Arrangements for Directors.
(Filed herewith)
 - * (10) (t) The RCM Technologies, Inc. 2007 Omnibus Equity Compensation Plan; incorporated by reference to Annex A to the Registrant's Proxy Statement, dated April 20, 2007, filed with the Securities and Exchange Commission on April 19, 2007.
 - (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)
 - 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.

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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 13, 2008

By: /s/ Leon Kopyt

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Leon Kopyt
Chairman, President, Chief Executive
Officer and Director

Date: March 13, 2008

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, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 13, 2008

/s/ Leon Kopyt

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

Date: March 13, 2008

/s/ Stanton Remer

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

Date: March 13, 2008

/s/ Norman S. Berson

Norman S. Berson
Director

Date: March 13, 2008

/s/ Robert B. Kerr

Robert B. Kerr
Director

Date: March 13, 2008

/s/ Lawrence Needleman

Lawrence Needleman
Director

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

FORM 10-K

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Consolidated Balance Sheets, December 29, 2007 and December 30, 2006

Consolidated Statements of Income, Years Ended December 29, 2007,
December 30, 2006 and December 31, 2005

Consolidated Statements of Changes in Stockholders' Equity and Consolidated
Statements of Comprehensive Income, Years Ended December 29, 2007,
December 30, 2006 and December 31, 2005

Consolidated Statements of Cash Flows, Years Ended December 29, 2007,
December 30, 2006 and December 31, 2005

Notes to Consolidated Financial Statements

Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Schedules I and II

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 29, 2007 and December 30, 2006

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

ASSETS

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December 29,
2007

Current assets

| | |
|--|----------|
| Cash and cash equivalents | \$11,642 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,583 and \$1,672 in fiscal 2007 and 2006, respectively | 45,468 |
| Long term receivable - current portion | 1,893 |
| Prepaid expenses and other current assets | 1,493 |
| Deferred tax assets | 711 |

Total current assets 61,207

Property and equipment, at cost

| | |
|---|-------|
| Equipment and leasehold improvements | 9,407 |
| Less: accumulated depreciation and amortization | 5,178 |

4,229

Other assets

| | |
|--|--------|
| Long term receivable | 4,216 |
| Deposits | 125 |
| Goodwill | 39,588 |
| Intangible assets, net of accumulated amortization of \$726 and \$406 in fiscal 2007 and 2006, respectively | 349 |

44,278

Total assets \$109,714
=====

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - (CONTINUED)
December 29, 2007 and December 30, 2006

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

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LIABILITIES AND STOCKHOLDERS' EQUITY

| | December 29, 2007 |
|--|----------------------|
| <hr/> | |
| Current liabilities | |
| Accounts payable and accrued expenses | \$8,005 |
| Accrued compensation | 7,418 |
| Payroll and withheld taxes | 1,087 |
| Income taxes payable | 1,156 |
| <hr/> | |
| Total current liabilities | 17,666 |
| <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; 12,058,689 and 11,822,126 shares issued and outstanding at December 29, 2007 and December 30, 2006, respectively | 603 |
| Additional paid-in capital | 102,951 |
| Accumulated other comprehensive income | 1,484 |
| Accumulated deficit | (12,990) |
| <hr/> | |
| | 92,048 |
| <hr/> | |
| Total liabilities and stockholders' equity | \$109,714 |
| <hr/> | |

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

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

| | December 29, 2007 | December 30, 2006 |
|-------|----------------------|----------------------|
| <hr/> | | |

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| | | |
|--|-----------|-----------|
| Revenues | \$214,209 | \$201,920 |
| Cost of services(1) | 161,233 | 151,412 |
| ----- | | |
| Gross profit | 52,976 | 50,508 |
| ----- | | |
| Operating costs and expenses | | |
| Selling, general and administrative(2) | 41,418 | 41,244 |
| Depreciation | 1,122 | 1,197 |
| Amortization | 320 | 310 |
| ----- | | |
| | 42,860 | 42,751 |
| ----- | | |
| Operating income | 10,116 | 7,757 |
| ----- | | |
| Other income (expense) | | |
| Interest income (expense), net | 59 | (256) |
| Gain (loss) on foreign currency transactions | 78 | (31) |
| Legal settlement | 800 | |
| ----- | | |
| | 937 | (287) |
| ----- | | |
| Income before income taxes | 11,053 | 7,470 |
| Income tax expense | 4,284 | 1,114 |
| ----- | | |
| Net income | \$6,769 | \$6,356 |
| ===== | | |

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)
Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

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

December 29,
2007

December 30,
2006

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Basic earnings per share

| | | |
|------------|--------|--------|
| Net income | \$.57 | \$.54 |
|------------|--------|--------|

Weighted average number of common shares outstanding

| | |
|------------|------------|
| 11,970,042 | 11,773,301 |
|------------|------------|

Diluted earnings per share

| | | |
|------------|--------|--------|
| Net income | \$.54 | \$.53 |
|------------|--------|--------|

Weighted average number of common and common equivalent shares outstanding (includes dilutive securities relating to options of 514,597 in 2007, 261,364 in 2006 and 274,834 in 2005)

| | |
|------------|------------|
| 12,484,639 | 12,034,665 |
|------------|------------|

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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 29, 2007, December 30, 2006 and December 31, 2005

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

| | Common Stock Shares | Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensiv Income |
|---|------------------------|-----------------|----------------------------------|--|
| Balance, January 1, 2005 | 11,383,470 | \$569 | \$98,291 | \$7 |
| Issuance of stock under employee stock purchase plan | 38,941 | 2 | 144 | |
| Exercise of stock options | 205,850 | 10 | 843 | |
| Issuance of common stock and stock options in connection with acquisition | 100,000 | 5 | 957 | |
| Translation adjustment | | | | 2 |
| Net income | | | | |

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| | | | | |
|---|------------|-------|-----------|-------|
| Balance, December 31, 2005 | 11,728,261 | 586 | 100,235 | 9 |
| ----- | | | | |
| Issuance of stock under employee stock purchase plan | 33,770 | 2 | 142 | |
| Exercise of stock options | 60,095 | 3 | 226 | |
| Translation adjustment | | | | |
| Stock based compensation expense | | | 956 | |
| Net income | | | | |
| ----- | | | | |
| Balance, December 30, 2006 | 11,822,126 | 591 | 101,559 | 1,0 |
| ----- | | | | |
| Issuance of stock under employee stock purchase plan | 28,563 | 1 | 143 | |
| Exercise of stock options | 208,000 | 11 | 838 | |
| Translation adjustment | | | | 4 |
| Stock based compensation expense | | | 411 | |
| Net income | | | | |
| ----- | | | | |
| Balance, December 29, 2007 | 12,058,689 | \$603 | \$102,951 | \$1,4 |
| ===== | | | | |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

| | December 29, 2007 | December 30, 2006 | December 2005 |
|--|----------------------|----------------------|------------------|
| ----- | | | |
| Net income | \$6,769 | \$6,356 | \$ |
| Foreign currency translation adjustment | 482 | 20 | |
| ----- | | | |
| Comprehensive income | \$7,251 | \$6,376 | \$ |
| ===== | | | |

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

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

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| | December 29, 2007 | December 30, 2006 | Dec |
|---|----------------------|----------------------|-----|
| Cash flows from operating activities: | | | |
| Net income | \$6,769 | \$6,356 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,449 | 1,508 | |
| Provision for allowance on accounts receivable | (89) | (120) | |
| Stock based compensation expense | 411 | 956 | |
| Deferred taxes | 2,474 | 827 | |
| Changes in assets and liabilities: | | | |
| Accounts and note receivable | (3,030) | (3,144) | |
| Restricted cash | | 8,572 | |
| Prepaid expenses and other current assets | 244 | 1,132 | |
| Accounts payable and accrued expenses | 118 | (7,665) | |
| Accrued compensation | (780) | 1,086 | |
| Payroll and withheld taxes | (87) | 277 | |
| Income taxes payable | 1,126 | (4,181) | |
| Total adjustments | 1,836 | (752) | |
| Net cash provided by operating activities | \$8,605 | \$5,604 | |

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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 29, 2007, December 30, 2006 and December 31, 2005

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

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| | December 29, 2007 | December 30, 2006 |
|---|----------------------|----------------------|
| ----- | | |
| Cash flows from investing activities: | | |
| Property and equipment acquired | (\$625) | (\$1,569) |
| Decrease (increase) in deposits | 33 | 9 |
| Cash paid for acquisitions, net of cash acquired | (259) | (1,840) |
| ----- | | |
| Net cash used in investing activities | (851) | (3,400) |
| ----- | | |
| Cash flows from financing activities: | | |
| Net repayments of line of credit | | (3,900) |
| Issuance of stock for employee stock purchase plan | 144 | 144 |
| Exercise of stock options | 849 | 229 |
| ----- | | |
| Net cash provided by (used in) financing activities | 993 | (3,527) |
| ----- | | |
| Effect of exchange rate changes on cash and cash equivalents | 446 | 11 |
| ----- | | |
| Net increase (decrease) in cash and cash equivalents | 9,193 | (1,312) |
| Cash and cash equivalents at beginning of year | 2,449 | 3,761 |
| ----- | | |
| Cash and cash equivalents at end of year | \$11,642 | \$2,449 |
| ===== | | |
| Supplemental cash flow information: | | |
| Cash paid for: | | |
| Interest | \$162 | \$723 |
| Income taxes | \$737 | \$4,060 |

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

RCM Technologies, Inc. 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 2007, 2006 and 2005 represent the 52 weeks ended December 29, 2007, December 30, 2006 and December 31, 2005, respectively.

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.

The Company's cash balances and short-term investments are maintained in accounts held by major banks and financial institutions. At December 29, 2007 and December 30, 2006, \$3.9 million and \$1.3 million, respectively of cash and cash equivalents were held in Canadian banks.

Fair Value of Financial Instruments

The Company's carrying value of financial instruments, consisting primarily of accounts receivable, which 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

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credited to the allowance for doubtful accounts.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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(Dollars in thousands, except share and per share amounts,
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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, 2007, or more frequently if events or changes in circumstances indicate that 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, 2007 and identified no impairments. Goodwill at December 29, 2007 and December 30, 2006 was \$39.6 and \$39, respectively.

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

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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 29, 2007, December 30, 2006 and December 31, 2005, the Company capitalized approximately \$135, \$563 and \$269, 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.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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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

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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.

At December 29, 2007 and December 30, 2006 there were \$8.4 million and \$8.5 million of unbilled receivables included in accounts receivable.

Concentration

During 2007, one customer accounted for 10.8% of the Company's revenues and 16.4% of the Company's accounts and notes receivable. No other customer accounted for 10% or more of the Company's revenues. The Company's five and ten largest customers accounted for approximately 29.9% and 38.3%, respectively, of the Company's revenues for 2007.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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(Dollars in thousands, except share and per share amounts,
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration (Continued)

During 2006, one customer accounted for 11.4% of the Company's revenues and 17.5% of the Company's accounts receivable. No other customer accounted for 10% or more of the Company's revenues. The Company's 5 and 10 largest customers accounted for approximately 25.2% and 34.6%, respectively, of the Company's revenues for 2006.

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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 5 and 10 largest customers accounted for approximately 26.3% and 35.6%, respectively, of the Company's revenues for 2005.

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.

The number of common shares used to calculate basic and diluted earnings per share for 2007, 2006 and 2005 was determined as follows:

| | Year Ended December 29, 2007 | Year Ended December 30, 2006 | Year Ended December 31, 2005 |
|----------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Basic average shares outstanding | 11,970,042 | 11,773,301 | 11,456,75 |
| Dilutive effect of stock options | 514,597 | 261,364 | 274,83 |
| Dilutive shares | 12,484,639 | 12,034,665 | 11,731,59 |
| | ===== | ===== | ===== |

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Per Share Data (Continued)

Options to purchase 1,462,000 shares of common stock at prices ranging from \$3.00 to \$9.81 per share were outstanding as of December 29, 2007. There were 35,000 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 29, 2007.

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.

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.

Stock - Based Compensation

At December 29, 2007, the Company had five stock-based employee compensation plans. Prior to January 1, 2006, the Company accounted for stock based compensation awards pursuant to these plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("Opinion 25") and related Interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123"). No stock-based compensation expense related to stock options was recorded in periods prior to January 1, 2006, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company disclosed the pro forma effects on net earnings, assuming compensation cost had been recognized, in all prior periods. The Company measures the fair value of stock options, if and when granted, based upon the closing market price of the Company's common stock on the date of grant. All grants typically vest over a three-year period and expire within 10 years of issuance. Stock options that vest in accordance with service conditions amortize over their applicable vesting period using the straight-line method.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)") using the modified-prospective transition method. Under that transition method, compensation cost recognized in 2006 and 2007 included: (a) compensation cost for all stock-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, adjusted for estimated forfeitures, and (b) compensation cost for all stock-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R), adjusted for estimated forfeitures. The straight-line recognition method is used to recognize compensation expense associated with stock-based payments that are subject to graded vesting based on service conditions.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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(Dollars in thousands, except share and per share amounts,
 unless otherwise indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock - Based Compensation (Continued)

Stock-based compensation expense of \$0.4 million, or \$0.03 per diluted share, and of \$1 million, or \$0.08 per diluted share, was recognized for the year ended December 29, 2007 and December 30, 2006, respectively.

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 year ended December 31, 2005.

| | |
|--|---------|
| Net income, as reported | \$3,536 |
| Less: stock-based compensation costs determined under fair value based method for all awards | 692 |
| Net income, pro forma | \$2,844 |
| Earnings per share of common stock-basic: | |
| As reported | \$.31 |
| Pro forma | \$.25 |
| Earnings per share of common stock-diluted: | |
| As reported | \$.30 |
| Pro forma | \$.24 |

The pro-forma compensation cost using the fair value-based method under SFAS No. 123R 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 the Black-Scholes Option Pricing Model during 2007, 2006 and 2005 has been estimated using the following assumptions:

| | Year Ended December 29, 2007 | Year Ended December 30, 2006 | Year Ended December 31, 2005 |
|---|------------------------------------|------------------------------------|------------------------------------|
| Weighted average risk-free interest rate | 4.91% | 4.90% | 3.91% |

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| | | | |
|--|---------|---------|---------|
| Expected term of option | 5 years | 5 years | 5 years |
| Expected stock price volatility | 58% | 56% | 58% |
| Expected dividend yield | - | - | - |
| Annual forfeiture rate | 29.8% | 22.30% | 5.88% |
| Weighted-average per share value granted | \$4.96 | \$2.44 | \$2.51 |

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Dollars in thousands, except share and per share amounts,
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock - Based Compensation (Continued)

Expected volatility is based on the historical volatility of the price of the Company's common stock since December 29, 2002. The Company uses 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. The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model.

There were options to purchase 40,000 and 12,000 shares of common stock granted during the years 2007 and 2006, respectively. The stock-based compensation expense attributable to the 40,000 and 12,000 options was \$15 and \$5 for fiscal years 2007 and 2006, respectively.

As of December 29, 2007, the Company had approximately \$0.2 million of total unrecognized compensation cost related to non-vested awards granted under our various stock-based plans, which is expected to be recognized over a weighted-average period of one year. 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.

The Company received cash from options exercised during the fiscal years 2007 and 2006 of \$849 and \$229, 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 \$1,039, \$1,080 and \$884 for the fiscal years 2007, 2006 and 2005, respectively.

Use of Estimates and Uncertainties

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

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

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.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), an interpretation of FASB Statement No. 109 ("SFAS 109"). FIN 48 prescribes a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure and transition. Implementation of FIN 48 did not result in a cumulative effect adjustment to retained earnings. With few exceptions, the Company is no longer subject to audits by tax authorities for tax years prior to 2001. At December 29, 2007, the Company did not have any significant unrecognized tax benefits.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 clarifies the principle that fair value should be based on assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for the Company beginning after November 15, 2007.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB

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Statement No. 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards, which require assets and liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and other eligible financial instruments. SFAS 159 is effective for the Company beginning after November 15, 2007.

The Company is currently evaluating the impact, if any that the adoption of SFAS 157 and 159 will have on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations." This statement replaces SFAS No. 141, "Business Combinations," requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. SFAS No. 141R requires costs incurred to effect the acquisition to be recognized separately from the acquisition as period costs. SFAS No. 141R also requires the acquirer to recognize restructuring costs that the acquirer expects to incur, but is not obligated to incur, separately from the business combination. In addition, this statement requires an acquirer to recognize assets and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. Other key provisions of this statement include the requirement to recognize the acquisition-date fair values of research and development assets separately from goodwill and the requirement to recognize changes in the amount of deferred tax benefits that are recognizable due to the business combination in either income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. With the exception of certain tax-related aspects described above, this statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period after December 15, 2008.

2. NOTE RECEIVABLE

On February 29, 2008, the Company accepted a note receivable from a customer for \$6.1 million of which \$1.9 million is payable within 12 months and the remaining \$4.2 million is payable in 36 monthly installments of \$152,000, including principal and interest at 6% per annum through July 2011. The note receivable is collateralized by a second position on all of the customer's accounts receivable as well as the personal guarantees of all its officers.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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3. ACQUISITION

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. The acquisition has been accounted for in accordance with Statement of SFAS No. 141 "Business

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Combinations." 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 \$0.6 million in cash and \$0.3 million of deferred consideration contingent upon achieving certain base levels of operating income for each of the three 12 month periods following the purchase.

The acquisition was accounted for in accordance with SFAS No. 141, "Business Combinations."

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 - fixed amounts are due if 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 |
|-------------------|--------|
| December 27, 2008 | \$800 |
| January 2, 2010 | 100 |
| | \$900 |
| | ===== |

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 Techpubs acquisition had occurred as of the beginning of the periods presented. These results are not necessarily indicative of results of future operations nor of results that would have occurred had the acquisition of Techpubs occurred as of the beginning of the periods presented.

| Amounts | Fifty-Two Weeks Ended December 29, 2007 Actual | Fifty-Two Weeks Ended December 30, 2006 (Unaudited) | Fifty-Two Weeks Ended December 31, 2005 (Unaudited) |
|------------------|--|---|---|
| Revenues | \$214,209 | \$202,220 | \$187,275 |
| Operating income | 10,116 | 7,814 | 6,993 |
| Net income | \$6,679 | \$6,376 | \$4,043 |

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| | | | |
|--------------------|--------|--------|--------|
| Earnings per share | \$0.54 | \$0.53 | \$0.34 |
|--------------------|--------|--------|--------|

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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 (Dollars in thousands, except share and per share amounts,
 unless otherwise indicated)

4. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

| | December 29, 2007 | December 30, 2006 |
|--|----------------------|----------------------|
| ----- | | |
| Equipment and furniture | \$1,102 | \$1,595 |
| Computers and systems | 7,315 | 7,590 |
| Leasehold improvements | 990 | 902 |
| ----- | | |
| | 9,407 | 10,087 |
| Less: accumulated depreciation and amortization | 5,178 | 5,695 |
| ----- | | |
| | \$4,229 | \$4,392 |
| ===== | | |

The Company writes off fully depreciated assets each year. In fiscal 2007, 2006 and 2005, the write offs were \$1,407, \$1,243 and \$881, respectively.

5. 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 29, 2007 and December 30, 2006 was \$39.6 million and \$39.3 million, respectively. There can be no assurance that future tests of goodwill impairment will not result in impairment charges.

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The results of the 2007, 2006 and 2005 impairment testing indicated no impairment of goodwill.

The changes in the carrying amount of goodwill for the years ended December 29, 2007 and December 30, 2006 are as follows:

| | Information Technology | Engineering | Commercial |
|-----------------------------------|---------------------------|-------------|------------|
| 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 | |
| Goodwill acquired during the year | | 259 | |
| Balance as of December 29, 2007 | \$31,350 | \$8,238 | |

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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 unless otherwise indicated)

5. GOODWILL AND INTANGIBLES (CONTINUED)

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

| | December 29, 2007 | | December 30, | |
|----------------------------------|-----------------------------|-----------------------------|-----------------------------|----|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Am |
| Definite-lived intangible assets | | | | |
| Non-compete agreements | \$145 | \$64 | \$145 | |
| Customer relationships | 930 | 662 | 930 | |

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| | | | |
|-------|---------|-------|---------|
| Total | \$1,075 | \$726 | \$1,075 |
|-------|---------|-------|---------|

The estimated useful lives of the intangibles ranges from 3 to 5 years.

Amortization of the definite-lived intangible assets is as follows:

| Year | Amount |
|------|--------|
| 2008 | \$233 |
| 2009 | 57 |
| 2010 | 49 |
| 2011 | 10 |
| | \$349 |

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. For the year ended December 29, 2007, the Company had essentially minimal borrowing requirements; as a result, the Company incurred \$31,000 of unused line fees. The weighted average interest rate under the Revolving Credit Facility for the year ended December 30, 2006 was 9.05%. During 2007 and 2006, the Company's outstanding borrowings ranged from \$-0- to \$1.5 million and \$-0- to \$7.1 million, respectively. At December 29, 2007 and December 30, 2006, there were no outstanding borrowings under this facility. At December 29, 2007, there were letters of credit outstanding for \$1.6 million. At December 29, 2007, the Company had availability for additional borrowing under the Revolving Credit Facility of \$23.4 million.

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unless otherwise indicated)

7. STOCK BASED COMPENSATION

Common Stock Reserved

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

| | December 29, 2007 | December 30, 2006 |
|---------------------------------|----------------------|----------------------|
| Exercise of options outstanding | 1,462,000 | 1,768,000 |
| Future grants of options | 728,694 | 29,194 |
| Total | 2,190,694 | 1,797,194 |

Incentive Stock Option Plans

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. As of December 29, 2007, options to purchase 68,455 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. As of December 29, 2007, options to purchase 50,000 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, at which time the 1996 Plan expired. 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. As of December 29, 2007, options to purchase

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869,045 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. As of December 29, 2007, options to purchase 28,694 shares of common stock were available for future grants, and options to purchase 474,500 shares of common stock were outstanding.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

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

7. STOCK BASED COMPENSATION (CONTINUED)

Incentive Stock Option Plans (Continued)

2007 Omnibus Equity Compensation Plan (the 2007 Plan)

The 2007 Plan, approved by the Company's stockholders in June 2007, provides for the issuance of up to 700,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. No more than 350,000 shares of common stock in the aggregate may be issued pursuant to grants of stock awards, stock units, performance shares and other stock-based awards. No more than 300,000 shares of common stock with respect to awards may be granted to any individual during any fiscal year. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of December 29, 2007, options to purchase 700,000 shares of common stock were available for future grants, and there were no options to purchase shares of common stock outstanding.

Transactions related to all stock options are as follows:

| | Year Ended December 29, 2007 | Weighted- Average Exercise Price | Year Ended December 30, 2006 | Weighted- Average Exercise Price | De |
|---|---------------------------------------|---|---------------------------------------|---|----|
| Outstanding options at beginning of year | 1,768,000 | \$4.34 | 1,935,483 | \$4.34 | |
| Granted | 40,000 | 9.29 | 12,000 | 6.12 | |
| Cancelled | (138,000) | 4.70 | (119,388) | 4.68 | |
| Exercised | (208,000) | 4.08 | (60,095) | 3.82 | |

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| | | | | |
|---------------------------------------|---------------------|--------|---------------------|--------|
| Outstanding options at end of year | 1,462,000 | \$4.48 | 1,768,000 | \$4.34 |
| ===== | | | | |
| Exercisable options at end of year | 904,000 | \$4.10 | 1,005,000 | \$4.00 |
| ===== | | | | |
| Option grant price per share | \$3.00 to \$9.81 | | \$3.00 to \$7.04 | |

The following table summarizes information about stock options outstanding at December 29, 2007:

| Range of Exercise Prices | Number of Outstanding Options | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price |
|--------------------------------|-------------------------------------|---|------------------------------------|
| \$3.00 - \$4.40 | 954,500 | 6.06 years | \$4.00 |
| \$4.70 - \$6.91 | 472,500 | 5.77 years | \$5.06 |
| \$9.18 | 35,000 | 9.55 years | \$9.62 |

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

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

7. STOCK BASED COMPENSATION (CONTINUED)

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 29, 2007, there were 28,563 shares issued under the Purchase Plan for net proceeds of \$144. As of December 29, 2007, there were 196,625 shares available for issuance under the Purchase Plan.

8. RETIREMENT PLANS

Profit Sharing Plan

The Company maintains a 401(k) profit sharing plan for the benefit of

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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 29, 2007, December 30, 2006 and December 31, 2005 were \$287, \$251 and \$100, respectively.

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 \$550 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 29, 2007, 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 on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (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 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 29, 2007, Mr. Kopyt would have been entitled to cash payments of approximately \$4.9 million (representing salary and excise tax payments).

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

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

9. COMMITMENTS (CONTINUED)

Severance Agreement

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The Company is party to a Severance Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (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 29, 2007, 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 \$3.1 million, inclusive of employee benefits.

Operating Leases

The Company leases office facilities and various equipment under non-cancelable leases expiring at various dates through April 2013. 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, (In thousands) | Amount |
|--|----------|
| 2008 | \$3,358 |
| 2009 | 2,782 |
| 2010 | 1,871 |
| 2011 | 1,498 |
| 2012 | 728 |
| Thereafter | 52 |
| Total | \$10,289 |

Rent expense for the fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005 was \$3,801, \$3,941, and \$3,514, respectively.

The Company subleases space to other tenants at various office locations under cancelable lease agreements. During fiscal 2007, 2006 and 2005 revenues of approximately \$417, \$114, and \$22, 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.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

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

11. INCOME TAXES

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

| | Year Ended December 29, 2007 | Year Ended December 30, 2006 | Ye De |
|-----------------|------------------------------------|------------------------------------|----------|
| ----- | | | |
| Current | | | |
| Federal | \$162 | | |
| State and local | 756 | \$259 | |
| Foreign | 864 | 27 | |
| | 1,782 | 286 | |
| ----- | | | |
| Deferred | | | |
| Federal | 2,518 | 704 | |
| State and local | (16) | 124 | |
| | 2,502 | 828 | |
| ----- | | | |
| Total | \$4,284 | \$1,114 | |
| ===== | | | |

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

| | December 29, 2007 | December 30, 2006 | Decemb 20 |
|---|----------------------|----------------------|--------------|
| ----- | | | |
| Tax at statutory rate (credit) | 34.0% | 34.0% | |
| State income taxes, net of Federal income tax benefit | 4.4 | 6.2 | |
| Stock compensation expense | 1.3 | 4.3 | |
| Foreign income tax effect | .5 | 1.3 | |
| Deductible amortization | (2.3) | (3.3) | |
| Federal tax audit adjustment (see penultimate paragraph footnote 11) | | (27.4) | |
| Non-deductible charges | .9 | 1.3 | |
| Other, net | | (1.5) | |
| ----- | | | |
| Total income tax expense | 38.8% | 14.9% | |
| ===== | | | |

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

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

11. INCOME TAXES (CONTINUED)

At December 29, 2007 and December 30, 2006, deferred tax assets and liabilities consist of the following:

| | December 29, 2007 | December 30, 2006 |
|---------------------------------|----------------------|----------------------|
| ----- | | |
| Deferred tax assets: | | |
| ----- | | |
| Loss carryforwards | \$135 | \$2,880 |
| Allowance for doubtful accounts | 633 | 669 |
| Alternative minimum tax credits | 162 | |
| Reserves and accruals | 146 | 196 |
| Litigation reserve | 106 | 59 |
| ----- | 1,182 | 3,804 |
| ----- | | |
| Deferred tax liabilities: | | |
| Prepaid expense deferral | (471) | (592) |
| Miscellaneous | | (27) |
| ----- | (471) | (619) |
| ----- | | |
| Net deferred tax assets | \$711 | \$3,185 |
| ===== | | |

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 \$0.7 million and a net operating loss disallowance of approximately \$0.4 million, which were paid during 2006. The full impact is included in the statement of income for the year ended

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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 \$0.4 million expiring in the year 2026.

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 total amount of interest and penalties recognized in the statements of income for each of the years in the three-year period ended December 29, 2007 was insignificant and when incurred is reported as interest expense.

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.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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(Dollars in thousands, except share and per share amounts,
 unless otherwise indicated)

12. INTEREST INCOME, NET OF INTEREST EXPENSE

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

| | December 29, 2007 | December 30, 2006 | December 31, 2005 |
|------------------|----------------------|----------------------|----------------------|
| Interest expense | (\$67) | (\$539) | (\$568) |
| Interest income | 126 | 283 | 347 |
| | \$59 | (\$256) | (\$221) |

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

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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 2007 | Information Technology | Engineering | Commercial | Corpora |
|---|---------------------------|-------------|------------|---------|
| Revenue | \$98,951 | \$71,156 | \$44,102 | |
| Operating expenses (1) (2) | 93,019 | 67,245 | 42,387 | |
| EBITDA ((3)) | 5,932 | 3,911 | 1,715 | |
| Depreciation | 503 | 462 | 157 | |
| Amortization of intangibles | 286 | 34 | | |
| Operating income | 5,143 | 3,415 | 1,558 | |
| Interest income, net of interest expense | (30) | (20) | (9) | |
| Gain on foreign currency transactions | | (78) | | |
| Legal settlement | | | | |
| Income taxes | 2,005 | 1,362 | 607 | |
| Net income | \$3,168 | \$2,151 | \$960 | \$ |
| Total assets | \$50,832 | \$28,431 | \$14,060 | \$16, |
| Capital expenditures | \$372 | \$124 | \$32 | |

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Dollars in thousands, except share and per share amounts,
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13. SEGMENT INFORMATION (CONTINUED)

| Fiscal 2006 | Information Technology | Engineering | Commercial | Corporate |
|---|---------------------------|-------------|------------|-----------|
| Revenue | \$101,449 | \$57,607 | \$42,864 | |
| Operating expenses (1), (2), (3) | 94,799 | 56,569 | 41,288 | |
| EBITDA (3) | 6,650 | 1,038 | 1,576 | |
| Depreciation | 533 | 495 | 169 | |
| 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 | 202 | |
| Net income | \$4,852 | \$353 | \$1,151 | |
| Total assets | \$53,431 | \$24,272 | \$12,137 | \$10,2 |
| Capital expenditures | \$282 | \$1,009 | \$63 | \$2 |

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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 Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

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

13. SEGMENT INFORMATION (CONTINUED)

| Fiscal 2005 | Information Technology | Engineering | Commercial | Corporate |
|-------------|---------------------------|-------------|------------|-----------|
|-------------|---------------------------|-------------|------------|-----------|

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| | | | | |
|--|----------|----------|----------|--------|
| 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 |

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
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(Dollars in thousands, except share and per share amounts,
 unless otherwise indicated)

13. SEGMENT INFORMATION (CONTINUED)

The following reconciles consolidated operating income to the Company's pretax income:

| | December 29, 2007 | December 30, 2006 | December 200 |
|--|----------------------|----------------------|-----------------|
| ----- | | | |
| Consolidated operating income | \$10,116 | \$7,757 | |
| Interest income (expense), net | 59 | (256) | |
| Gain (loss) on foreign currency transactions | 78 | (31) | |
| Legal settlement | 800 | | |

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| | | |
|----------------------------|----------|---------|
| Consolidated pretax income | \$11,053 | \$7,470 |
|----------------------------|----------|---------|

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 29, 2007, December 30, 2006, and December 31, 2005 are as follows:

| | December 29, 2007 | December 30, 2006 | December 31, 2005 |
|---------------------|----------------------|----------------------|----------------------|
| Revenues | | | |
| United States | \$198,032 | \$190,644 | \$165,000 |
| Canada | 16,177 | 11,276 | 14,000 |
| | \$214,209 | \$201,920 | \$180,000 |
| Fixed Assets | | | |
| United States | \$4,127 | \$4,338 | \$3,000 |
| Canada | 102 | 54 | 0 |
| | \$4,229 | \$4,392 | \$3,000 |

14. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Year Ended December 29, 2007

| | Sales | Gross Profit | Net Income |
|--------------|------------------|-----------------|----------------|
| 1st Quarter | \$54,493 | \$12,377 | \$1,571 |
| 2nd Quarter | 56,846 | 13,959 | 1,853 |
| 3rd Quarter | 54,079 | 13,433 | 1,724 |
| 4th Quarter | 48,791 | 13,207 | 1,621 |
| Total | \$214,209 | \$52,976 | \$6,769 |

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

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

Year Ended December 30, 2006

| | Sales | Gross Profit | Net Income |
|--------------|------------------|-----------------|----------------|
| 1st Quarter | \$47,054 | \$12,043 | \$811 |
| 2nd Quarter | 49,025 | 12,198 | 1,859 |
| 3rd Quarter | 51,650 | 12,952 | 1,349 |
| 4th Quarter | 54,191 | 13,315 | 2,337 |
| Total | \$201,920 | \$50,508 | \$6,356 |

15. CONTINGENCIES

In late 1998, two shareholders who were formerly officers and directors of the Company filed suit against the Company. The former officers and directors alleged 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 rights agreement entered into in connection with an acquisition transaction pursuant to which the plaintiffs became shareholders of the Company.

A trial in 2002 resulted in a judgment in favor of the plaintiffs for \$7.6 million that was affirmed on appeal. In June 2006, the Company paid \$8.6 million, which included post-judgment interest and other items totaling \$1.0 million to the plaintiffs to satisfy the judgment.

In November 2002, the Company filed suit on professional liability claims against the attorneys and law firms who had served as its counsel in the acquisition transaction and in connection with its subsequent dealings with the plaintiffs concerning their various relationships with the Company resulting from that transaction. In its lawsuit against its former counsel, the Company is seeking complete indemnification with respect to (1) its costs and counsel fees incurred in the defense against the claims of the plaintiffs; (2) the amount it paid to satisfy the judgment; and (3) its costs and counsel fees incurred in the prosecution of the legal malpractice action itself. In February 2007, the Company reached a settlement with one of the law firm defendants resulting in the recovery of \$0.8 million. Discovery proceedings are continuing with the other defendants and a trial will likely be scheduled in the first half of 2009.

The Company is party to two agreements of indemnity related to the performance of two construction projects by a customer of the Company. In

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the event of non-performance by the customer, the Company may be obligated to indemnify the project owners for certain cost overruns on such projects.

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.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 29, 2007 based upon criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management determined that the company's internal control over financial reporting was effective as of December 29, 2007, based on the criteria in Internal Control-Integrated Framework issued by COSO.

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

This report 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 report 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.

/S/ Leon Kopyt

/S/ Stanton Remer

Leon Kopyt
Chairman and Chief Executive Officer

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

Dated: March 20, 2008

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 (the Company) as of December 29, 2007 and December 30, 2006 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 29, 2007. Our audits of the basic financial statements included the financial statement schedules listed in the index appearing under Item 15 (a) (2). These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included 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 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 29, 2007 and December 30, 2006, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended December 29, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

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.

/s/ Grant Thornton LLP

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Grant Thornton LLP
 Philadelphia, Pennsylvania
 March 12, 2008

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SCHEDULE I

RCM TECHNOLOGIES, INC. (PARENT COMPANY)
 CONDENSED FINANCIAL INFORMATION OF REGISTRANT
 BALANCE SHEET
 December 29, 2007 and December 30, 2006
 (Dollars in thousands, except share and per share amounts,
 unless otherwise indicated)

ASSETS

| | December 29, 2007 | Decem 2 |
|---------------------------------------|----------------------|------------|
| Current assets | | |
| Prepaid expenses and other assets | \$4 | |
| Other assets | | |
| Long-term receivables from affiliates | 92,201 | |
| Total assets | \$92,205 | |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | December 29, 2007 | Decem 2 |
|---------------------------------------|----------------------|------------|
| Current liabilities | | |
| Accounts payable and accrued expenses | \$157 | |
| Stockholders' equity | | |

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| | |
|--|----------|
| Common stock | 603 |
| Foreign currency translation adjustment | 1,484 |
| Additional paid in capital | 102,951 |
| Accumulated deficit | (12,990) |
| ----- | |
| Total stockholders' equity | 92,048 |
| ----- | |
| Total liabilities and stockholders' equity | \$92,205 |
| ===== | |

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

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SCHEDULE I

RCM TECHNOLOGIES, INC. (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF INCOME
Years Ended December 29, 2007, December 30, 2006
and December 31, 2005 (Dollars in thousands, except
share and per share amounts, unless otherwise indicated)

| | December 29, 2007 | December 30, 2006 | December 31, 2005 |
|--------------------------------------|----------------------|----------------------|----------------------|
| ----- | | | |
| Operating expenses | | | |
| Administrative | \$1,414 | \$1,445 | \$1,1 |
| ----- | | | |
| Operating loss | (1,414) | (1,445) | (1,1 |
| Management fee income | 1,414 | 1,445 | 1,1 |
| ----- | | | |
| Income before income in subsidiaries | | | |

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| | | | |
|------------------------------------|---------|---------|-------|
| Equity in earnings of subsidiaries | 6,769 | 6,356 | 3,5 |
| ----- | | | |
| Net income | \$6,769 | \$6,356 | \$3,5 |
| ===== | | | |

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

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SCHEDULE I

RCM TECHNOLOGIES, INC. (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS
Years Ended December 29, 2007, December 30, 2006
and December 31, 2005 (Dollars in thousands, except
share and per share amounts, unless otherwise indicated)

| | December 29, 2007 | December 30, 2006 | D |
|---|----------------------|----------------------|---|
| ----- | | | |
| Cash flows from operating activities: | | | |
| Net income | \$6,769 | \$6,356 | |
| ----- | | | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Recognition of share based compensation | 411 | 956 | |
| Equity in deficiency in assets of subsidiaries | (6,769) | (6,356) | |
| Changes in operating assets and liabilities: | | | |
| Prepaid expenses and other assets | (1) | 5 | |

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| | | |
|--|---------|---------|
| Accounts payable and accrued expenses | (77) | 112 |
| | (6,436) | (5,283) |
| Net cash provided by operating activities | 333 | 1,073 |
| Cash flows from investing activities: | | |
| Increase in long-term receivables from subsidiaries | (807) | (1,458) |
| Net cash used in investing activities | (807) | (1,458) |
| Cash flows from financing activities: | | |
| Sale of stock for employee stock purchase plan | 144 | 144 |
| Exercise of stock options | 849 | 229 |
| Net cash provided by financing activities | 993 | 373 |
| Effect of exchange rate changes on cash and cash equivalents | (519) | 12 |
| 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.

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SCHEDULE II

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
 Years Ended December 29, 2007, December 30, 2006
 and December 31, 2005 (Dollars in thousands, except
 share and per share amounts, unless otherwise indicated)

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| Column A | Column B | Column C | Column D |
|------------------------------|--------------------------------------|-------------------------------------|---------------------------------|
| Description | Balance at Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts |
| ----- | | | |
| Additions | | | |
| ----- | | | |
| Year Ended December 29, 2007 | | | |
| Allowance for doubtful | | | |
| accounts on trade | | | |
| receivables | \$1,672 | \$598 | |
| Year Ended December 30, 2006 | | | |
| Allowance for doubtful | | | |
| accounts on trade | | | |
| receivables | \$1,792 | \$294 | |
| Year Ended December 31, 2005 | | | |
| Allowance for doubtful | | | |
| accounts on trade | | | |
| receivables | \$1,862 | \$276 | |

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EXHIBIT INDEX

-
- (3) (e) Amendment No. 3 to Amended and Restated Bylaws.
 - (10) (o) Compensation Arrangements for Named Executive Officers.
 - (10) (p) Compensation Arrangements for Directors.
 - (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)

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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 3 (e)

AMENDMENT NO. 3

TO THE
AMENDED AND RESTATED
BYLAWS OF
RCM TECHNOLOGIES, INC.

ADOPTED: JUNE 14, 2007

1. Section 6.01(a) of Article VI of the Company's Amended and Restated Bylaws is deleted in its entirety and in lieu thereof the following is substituted:

(a) Form of Certificates. Shares of the Company may be certified or uncertificated, as provided under Nevada law, and this Section 6.01(a) of this Article VI shall not be interpreted to limit the authority of the Directors to issue some or all of any of the classes or series of shares of the Company without certificates.

To the extent certificates for shares are issued, such certificates shall be in the form as approved by the board of directors and state the Company is incorporated under the laws of the State of Nevada, the name of the person to whom issued and the number and class of shares and the designation of the series (if any) the certificate represents. If the Company is authorized to issue shares of more than one class or series, certificate for shares of the Company shall set forth upon the face or back of the certificate (or shall state on the face or back of the certificate that the Company will furnish to any shareholder upon request and without charge), a full or summary statement of the designations, voting rights, preferences, limitations and special rights of the shares of each class or series authorized to be issued so far as they have been fixed and determined and the authority of the board of directors to fix and determine the designations, voting rights, preferences, limitations and special rights of the classes and series of shares of the Company.

In the case of shares issued without certificates, the Company will, within a reasonable time after such issuance, send the holders of such shares a written statement containing the information specified in the preceding paragraph. At least annually thereafter, the Company shall provide to its stockholders of record a written statement confirming the information contained in the informational

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statement sent pursuant to the preceding sentence.

2. Section 6.03 of Article VI of the Company's Amended and Restated Bylaws is deleted in its entirety and in lieu thereof the following is substituted:

Transfers of shares shall be made on the share register or transfer books of the Company upon surrender of the certificate therefore, endorsed by the person named in the certificate or by an attorney lawfully constituted in writing; provided, that in the case of shares that are not represented by a certificate, no delivery of a certificate shall be required and transfers shall be made on the share register or transfer books of the Company only by the record holder of such shares or by an attorney lawfully constituted in writing. No transfers shall be made inconsistent with the provisions of the Uniform Commercial Code, its amendments and supplements.

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 \$250,000 in 2007. 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 2007. 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 salary of \$250,000 in 2007. 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 29, 2007, December 30, 2006
 and December 31, 2005 (Dollars in thousands, except
 share and per share amounts, unless otherwise indicated)

| | December 29, 2007 | December 30, 2006 | D |
|-----------------------------------|----------------------|----------------------|---|
| ----- | | | |
| Diluted earnings | | | |
| Net income applicable to common | | | |
| stock | \$6,769 | \$6,356 | |
| ===== | | | |
| Shares | | | |
| Weighted average number of common | | | |
| shares outstanding | 11,970,042 | 11,773,301 | |
| Common stock equivalents | 514,597 | 261,364 | |

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| | | |
|--|------------|------------|
| Total | 12,484,639 | 12,034,665 |
| Diluted earnings per common share | \$.54 | \$.53 |
| Basic | | |
| Net income applicable to common stock | \$6,769 | \$6,356 |
| Shares | | |
| Weighted average number of common shares outstanding | 11,970,042 | 11,773,301 |
| Basic earnings per common share | \$.57 | \$.54 |

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

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

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

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RCM Technologies, Inc.

We have issued our report dated March 12, 2008, 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 December 31, 2006) accompanying the consolidated financial statements and related schedules included in the 2007 Annual Report of RCM Technologies, Inc. and Subsidiaries on Form 10-K for the year ended December 29, 2007. 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. 333-145904, effective September 6, 2007, File No. 333-61306, effective April 21, 1993, File No. 333-80590, 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 12, 2008

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

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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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

(c) 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

(d) 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 20, 2008

/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

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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 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

(c) 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

(d) 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 20, 2008

/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 "Company") for the year ended December 29, 2007 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 20, 2008

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 29, 2007 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.

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/s/ Stanton Remer

Stanton Remer
Executive Vice President
Chief Financial Officer
March 20, 2008

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.