RCM TECHNOLOGIES INC

FORM 10-K
(Annual Report)

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Industry	Business Services
Sector	Services
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2001
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from .... to ....
Commission file number 1-10245

RCM TECHNOLOGIES, INC.

Exact name of registrant as specified in its charter
Nevada 95-1480559
State of incorporation IRS Employer Identification No.

2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613
Address of principal executive offices
Registrant's telephone number, including area code:

(856) 486-1777 Securities registered pursuant to

Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.05
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of Common Stock held by non-affiliates of the Registrant on February 22, 2002 was approximately $53,628,000 based upon the closing price of the Common Stock on such date on The Nasdaq National Market of $5.11. 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 February 22, 2002: 10,571,761.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Registrant's 2002 Annual Meeting of Stockholders ("the 2002 Proxy Statement") are incorporated by reference into Items 10,11,12 and 13 in Part III of this Annual Report on Form 10-K. If the 2002 Proxy Statement is not filed by April 30, 2002, an amendment to this Annual Report on Form 10-K setting forth this information will be duly filed with the Securities and Exchange Commission.

PART I

Private Securities Litigation Reform Act Safe Harbor Statement

Certain statements included herein and in other Company reports and public filings are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that such forward-looking statements, which may be identified by words such as "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and similar expressions which include, among others, statements regarding the Company's intentions as to changes to its product offerings, its concentration or higher margin service areas, its pursuit of strategic alliances, partnerships, clients and acquisitions, the increased use of the SAP platform and the increased propensity of clients to outsource IT functions, are only predictions and are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially. Such risks and uncertainties include, without limitation: (i) unemployment and general economic conditions associated with the provision of information technology and engineering services and solutions and 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) possible adverse effects on the market price of the Company's Common Stock due to the resale into the market of significant amounts of Common Stock; (vii) the potential adverse effect a 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 which 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) 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; and (xvii) 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 ends or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

ITEM 1. BUSINESS

General

RCM Technologies, a Nevada corporation formed in 1971, is a premier provider of business and technology solutions designed to enhance and maximize the performance of its customers through the adaptation and deployment of advanced information technology and engineering services. RCM is an innovative leader in the design, development and delivery of these services to various industries. RCM's offices are located in throughout North America, including major metropolitan centers. The Company provides a diversified and extensive range of service offerings and deliverables. Its portfolio of Information Technology services includes e-Business, Enterprise Management, Enterprise Application Integration and Supply Chain. RCM's Engineering services focus on Engineering Design, Technical Support, and Project Management and Implementation. The Company's Commercial Services Group provides Specialty Healthcare professionals as well as General Support Services. The Company provides its services to clients in banking and finance, healthcare, insurance, aerospace, pharmaceutical, telecommunications, utility, technology, manufacturing and distribution and government sectors. The Company believes that the breadth of services fosters long-term client relationships, affords cross-selling opportunities and minimizes the Company's dependence on any single technology or industry sector.

During the fiscal year ended December 31, 2001, approximately 70% of RCM's total revenues were derived from IT services, 20% from Engineering services and the remaining 10% from Commercial Services.

RCM sells and delivers its services through a network of 52 branch offices located in selected regions throughout North America. The Company has executed a regional strategy to better leverage its consulting services offering. The Company has also implemented a reorganization of its Solutions practices to centralize management oversight and to expand the sales and marketing of those services.

Growth in demand for IT consulting services has slowed in the past two years after several years of rapid growth. The decline in sales along with a decline in operating income of certain branch offices has resulted in impairment charges for the years ended December 31, 2001 and 2000. Despite a sales slow down, RCM has achieved positive growth of the gross margin percentages for the services delivered.

Industry Overview

Businesses today face intense competition, the challenge of constant technological change, and the ongoing need for business process optimization. Companies are turning to IT solutions to address these issues and to compete more effectively. As a result, the ability of an organization to integrate and deploy new information technologies has become critical.

Although many companies have recognized the importance of IT systems and products to competing in today's business climate, the process of designing, developing and implementing IT solutions has become increasingly complex. With the prevailing economic conditions, many customers have nonetheless elected to defer, redefine or actually cancel investments in new systems or software. Many companies are focusing now on making the most effective use of existing investments they have already made in software and technology solutions. Many of the Company's clients are facing challenging economic times. This is creating uncertainty in their ability to pursue technology projects, which had previously been considered a competitive imperative. Many clients are laying off their own permanent staff and reducing the demand for consulting services in attempts to maintain profitability. This has a direct impact on RCM's revenues.

Industry Overview (Continued)

The current economic environment has further challenged many companies as they evaluate and determine which investment or funding choices they should make or maintain or enhancements to business critical applications. IT managers must integrate and manage computing environments consisting of multiple computing platforms, operating systems, databases and networking protocols, and off-the-shelf software applications to support business objectives. Companies also need to keep pace with new developments in technology, 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 the strongest demand for IT services is among middle-market companies, which typically lack the time and technical resources to satisfy all of there IT needs internally. These companies typically require sophisticated, experienced IT assistance to achieve their business objectives. These companies often rely on IT service providers to help implement and manage their systems. However, many middle-market companies rely on multiple providers for their IT needs. Generally, the Company believes that this reliance on multiple providers results from the fact that larger IT service providers do not target these companies, while smaller IT service providers lack sufficient breadth of services or industry knowledge to satisfy all of these companies' needs. The Company believes this reliance on multiple service providers creates multiple relationships that are more difficult and less cost-effective to manage than a single relationship would be and can adversely impact the quality and compatibility of IT solutions. RCM is structured to provide middle-market companies an objective, single-source for there IT needs.

Business Strategy

RCM is dedicated to providing solutions to meet its customers' business needs by delivering information technology and professional engineering services. The Company's objective is to be a recognized leader of specialty 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:

Growth Strategy

Full Cycle Solution. The Company is building out its Full Cycle Solution capability. The goal of the full cycle strategy is to fully address a client's project implementation cycle. 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 selectively build projects and solutions offerings, which utilize its extensive resource base. The Company believes that the effective execution of this strategy will generate improved margins on the existing resources. The completion of this service-offering continuum affords the Company the opportunity to strengthen long-term client relationships that will further improve the quality of earnings.

In addition to building out the Full Cycle Solution Offering, the Company will continue to focus on transitioning into higher value oriented services to increase its margins on its various service lines. These measures will be accomplished through expansion of its client relationships and, at the same time, pursuing strategic alliances and partnerships.

Promote Internal Growth. The Company continues to evolve its internal growth strategies. Several initiatives were launched during the year ended December 31, 2001 ("fiscal 2001"). The results of these efforts have produced gains in margin growth, RCM's customer service focus and national account coordination, as well as greater client penetration.

Growth Strategy (Continued)

Gross margins increased as a direct result of implementing a program at all operating branches of the Company to conduct business at certain margin thresholds. The policies developed during this initiative continue to be refined and administered.

In geographic regions where the Company has a high density of offices, sales management programs were designed and implemented to segregate clients into regional accounts. This process has provided a higher degree of account coordination so clients can benefit from the wider array of services that are offered by the Company.

During fiscal 2001, RCM continued a company-wide training initiative in which sales managers and professionals received advanced sales training. The purpose of the training, which is a multi-semester program, is to sharpen sales skills and to further assist the sales force in identifying, developing and closing solution sales.

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 industrial sectors in which RCM has assembled the greatest work experience. RCM's consultants have acquired 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 that the overall result is greater account penetration and enhanced client relationships.

Operational strategies contributing to RCM's internal productivity include the delineation of certain new technical practice areas in markets where its clients had historically known the Company as a contract service provider. The formation of these practice areas has facilitated the flow of project opportunities and the delivery of project-based solutions. These projects have had the positive effect of expanding the margins for the core technical competencies of a number of Company consultants.

Continue Selective Strategic Acquisitions. The industry for the Company's services continues to be highly fragmented, and the Company plans to continue to assess opportunities to make strategic acquisitions as such opportunities are presented to the Company. The Company's past acquisition strategy has been designed to broaden the scope of services and technical competencies and grow its Full Cycle Solution capabilities, and the Company would continue to consider such goals in any future acquisitions. In considering acquisitions, the Company focuses on companies with (i) technologies 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 and customer relationships and expertise. The Company believes an entrepreneurial business atmosphere allows its branch offices to quickly and creatively respond 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. The industry-centric strategy has allowed RCM to further expand its relationships with clients in RCM's targeted sectors.

Operating Strategy (Continued)

To develop close customer relationships, the Company's practice managers regularly meet with both existing and prospective clients to help design solutions for, 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 results in greater customer satisfaction and reduced business development expense. Additionally, the Company believes that by partnering with its customers in designing business solutions, it generates 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 the appropriately skilled personnel. The Company has been successful in retaining these personnel due in part to its use of practice managers or "ombudsmen" who are dedicated to maintaining contact with, and monitoring the satisfaction levels of, the Company's consultants while they are on assignment.

Centralize Administrative Functions. The Company seeks to maximize 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 quickly realize savings and synergies, efficiently control, and monitor its operations. It also allows local branches to focus more on growing their sales and delivering capabilities.

To accomplish this, the Company is centralized on an SAP operating system into which it integrated all of its operating units. This year all Canadian operations implemented the SAP system completing the roll out to all locations. The software is configured to perform all back office functions including payroll, project management, project cost accounting, billing, human resource administration and all financial consolidation and reporting functions. The Company believes that this system provides a robust and highly scalable platform from which to manage daily operations, and that this system has the capacity to accommodate increased usage.

Information Technology

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

The Company has a wide array of service offerings and deliverables within this spectrum. Within its e-business offering, RCM delivers web strategies, web enablement of client applications, e-commerce solutions, Intranet solutions, corporate portals and complete web sites. Within its business intelligence practice, RCM provides data architecture design, data warehousing projects, knowledge management, and customer relationship management and supply chain management solutions. In its Enterprise Applications area, RCM delivers software sales for certain applications, implementation services, infrastructure support, integration services, and an array of post implementation support services. In its enterprise application integration work, the Company integrates diverse but related enterprise applications into unified cohesive operating environments. The Company believes that its ability to deliver information technology solutions across a wide range of technical platforms provides an important competitive advantage.

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

Information Technology (Continued)

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

As of December 31, 2001, the Company employed approximately 1,250 information technology personnel.

Professional Engineering

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

The Company believes that the deregulation of the utilities industry and the aging of nuclear power plants offer the Company an opportunity to capture a significant share of professional staffing and project management requirements of the utilities industry both in professional 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 increased 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 31, 2001, the Company employed approximately 540 engineering personnel.

Commercial Services

The Company's Commercial Services Group consists of Specialty Healthcare and General Support Services. 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 and receiving and general warehouse. Contract and temporary assignments range in length from less than one day to several weeks or months.

The Company's Specialty Healthcare Group provides skilled, licensed healthcare professionals, primarily physical therapists, occupational therapists, speech language pathologists and trauma nurses. The Specialty Healthcare Group provides services to hospitals, nursing homes, pre-schools and lower 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. The Specialty Healthcare Group does not provide general nursing or home healthcare services. Typical engagements range either from three to six months or are on a day-to-day shift basis.

As of December 31, 2001, the Company employed approximately 780 commercial services personnel.

ITEM 1. BUSINESS (CONTINUED)

Branch Offices

The Company's organization consists of five operating regions with 52 branch offices located in 17 states and Canada. The region of and services provided by each branch office are set forth in the table below.

REGION	NUMBER OF OFFICES	SERVICES PROVIDED(1)
EAST		
Connecticut	2	PE
Maryland	1	IT
New Hampshire	1	IT
New Jersey	5	IT, PE, CS
New York	4	IT, PE, CS
Pennsylvania	2	IT, PE
South Carolina	1	PE
Tennessee	1	PE
Vermont	1	PE
	18	
GREAT LAKES		
Illinois	1	IT
Michigan	5	IT, PE
Minnesota	1	IT
Wisconsin	3	IT, PE
	10	
CENTRAL		
Texas	3	IT
	3	
WEST		
Arizona	1	PE
Colorado	1	IT
Northern California	2	IT
Southern California	9	IT, CS
	13	
CANADA	8	IT, PE

(1) Services provided are abbreviated as follows:

IT - Information Technology

PE - Professional Engineering CS - Commercial Services

Branch offices are primarily located in regions that the Company believes have strong growth prospects for information technology 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.

Branch Offices (Continued)

The Company believes that a substantial portion 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 maximizes operating performance and contributes to employee and customer satisfaction.

From it's headquarter 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 principle sales offices have one General Manager, one sales manager, three to six sales people, one to five practice managers and several recruiters. The General Managers report to Regional Managers who are responsible for ensuring performance goals are achieved. The Company's branch managers meet frequently to discuss "best practices" and ways to increase the Company's cross selling of its professional services. The Company's practice managers meet periodically to strategize, maintain continuity, and identify developmental needs and cross-selling opportunities.

Sales And Marketing

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

The Company has elevated the importance of working with and developing its partner alliances with technology firms. Partner programs are in place with firms RCM has identified as strategically important to the completeness of the service offering of the Company. Relations have been established with firms such as Microsoft, Great Plains, i2, QAD, Dorado, GEAC, Mercury, IBM, Compaq 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.

Some of the Company's larger representative customers include 3M, Apple, Bruce Power, Ericsson, IBM, Liberty Mutual Insurance, Lockheed Martin, Medtronic, Merck, Merrill Lynch, Ontario Power, Sun Microsystems, Toyota, United Technologies, Vermont Yankee Nuclear Power, U.S. Treasury 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 local or regional level or, when appropriate, at the corporate level for national accounts.

During fiscal 2001, no one customer accounted for more than 5% of the Company's revenues. The Company's five and ten largest customers accounted for approximately 20% and 28%, respectively, of the Company's revenues for fiscal 2001.

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, the Internet, job fairs, schools, newspaper and trade journal advertising, attendance at industry shows and presentations.

The Company believes that a significant element to the Company's success in retaining qualified consultants and contract personnel is the Company's use of Consultant Relationship Managers ("CRM") and technical practice managers. CRM 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 employs various methods of technical training and skills development including sending consultants to application vendor provided courses, the use of computer-based training tools and on-the-job training through mentoring programs.

Information Systems

The Company has invested, and intends to continue to invest, in the SAP R/3 software that it has installed. This system is deployed on clustered Compaq servers and is running on a SQL 7.0 database. The branch offices of the Company are networked to the corporate offices so the SAP application is accessed at all operational locations. This 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. In addition to SAP, each of the service groups maintains databases to permit efficient tracking of available personnel on a local basis. These databases facilitate efficient matching of customers' requirements with available technical personnel.

Competition

The market for IT and engineering services includes a large number of competitors, is subject to rapid change and is highly competitive. 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 professional engineering services market include: focus on the middle market, breadth of services offered, technical expertise, knowledge and experience in the industry, perceived value, quality 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, its strong corporate-level support and resources, its status as a public company and its ability to offer management of the acquired companies an opportunity to join and participate in the expansion of a growing provider of information technology and other engineering services.

Employees

As of December 31, 2001, the Company employed an administrative staff of approximately 290 people, including certified IT specialists and licensed professional engineers who, from time to time, participate in IT and engineering design projects undertaken by the Company. As of December 31, 2001, approximately 1,250 information technology professionals and 540 engineering and technical personnel were employed by the Company to work on client projects for various periods. The Company also employed approximately 780 commercial services personnel as of December 31, 2001. None of the Company's employees are represented by a collective bargaining agreement. The Company considers its relationship with its employees to be good.

ITEM 2. PROPERTIES

The Company provides specialty professional consulting services, principally performed at various client locations, through 52 offices in 17 states and Canada. The Company's administrative and sales offices typically consist of 1,000 to 3,000 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 9,100 square feet and are leased at a rate of $12.50 per square foot per month for a term ending on January 31, 2003.

The Company's operational office is located at 20 Waterview Boulevard, 4th Floor, Parsippany, NJ 07054. These premises consist of approximately 28,000 square feet and are leased at a rate of $25.00 per square foot per month for a term ending on June 30, 2012.

ITEM 3. LEGAL PROCEEDINGS

In 1998, two former officers filed suit against the Company alleging wrongful termination of their employment, wrongful failure to make severance payments and wrongful conduct by the Company in connection with the grant and non-vestiture of Stock Options to the plaintiffs. The complaint also alleged that the Company wrongfully limited the number of shares of Company stock that could be sold by the plaintiffs under a Registration Rights Agreement and made various other claims. The plaintiffs' complaint sought damages of approximately $480,000 and further sought additional unliquidated damages. The claims relating to wrongful termination of employment and wrongful conduct by the Company in connection with the grant of Stock Options to the plaintiffs have been resolved in binding arbitration. With respect to the Company's alleged wrongful limiting of the number of shares the plaintiffs could sell and one plaintiff's claim of entitlement to severance pay of $240,000, the Company is awaiting completion of discovery and the fixing of a trial date. The Company is also awaiting the court's ruling on its motion for summary judgment in its favor with respect to the plaintiffs' claims concerning the non-vestiture of their stock options. Substantial damages are being sought on the share-selling limitation and stock option claims; however, the alleged damages are subject to significant reduction for having been avoidable losses. Management believes the suit is without merit and will continue to defend the claims vigorously.

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 31, 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on The Nasdaq National 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 31, 2001 as reported by The Nasdaq National Market:

	Common Stock	
Fiscal 2000	High	Low
First Quarter..............	$19.13	$10.50
Second Quarter.............	12.94	7.25
Third Quarter..............	8.25	3.88
Fourth Quarter.............	5.69	2.38
Fiscal 2001		
First Quarter..............	8.00	2.88
Second Quarter.............	5.70	2.85
Third Quarter..............	6.48	3.10
Fourth Quarter............	$ 4.75	$ 3.41

Holders

As of February 19, 2002, the approximate number of holders of record of the Company's Common Stock was 602. Based upon the requests for proxy information in connection with the Company's most recent Annual Meeting of Stockholders, the Company believes the number of beneficial owners of its Common Stock is approximately 3,200.

Dividends

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

	Years Ended		Two Months Ended	Years Ended		
	December 31,			October 31,		
	2001	2000	1999	1999	1998	1997
Income Statement						
Revenues	$224,893,800	$296,001,276	$51,397,429	$313,385,772	$201,452,318	$113,959,093
Gross profit	62,795,609	78,485,616	13,218,972	76,639,326	48,424,223	27,126,745
Income before unusual items	16,237,466	16,910,326	2,050,993			4,839,933
Unusual items	(34,993,435)	(38,806,712)				
Income (loss) from continuing operations	(18,755,969)	(21,896,386)	2,050,993	14,948,248	9,796,705	4,839,933
Loss from discontinued operations						(362,500)
Net income (loss)	($ 18,755,969)	($ 21,896,386)	$2,050,993	$14,948,248	$ 9,796,705	$ 4,477,433
Earnings Per Share (1)						
Income (loss) from continuing Operations (diluted)	($1.78)	($2.09)	$.19	$1.37	$1.07	$.76
Loss from discontinued Operations (diluted)						($.06)
Net income (loss) (diluted)	($1.78)	($2.09)	$.19	$1.37	$1.07	$.70
Net income (loss) (basic)	($1.78)	($2.09)	$.20	$1.43	$1.11	$.74

	December 31,			October 31,		
	2001	2000	1999	1999	1998	1997
Balance Sheet						
Working capital	$10,977,131	$56,508,604	$61,383,437	$54,866,477	$53,672,589	$17,279,115
Total assets	131,155,945	174,268,828	183,950,884	184,047,546	117,067,151	54,082,596
Long term liabilities	-	49,483,873	47,300,000	40,800,000	-	308,129
Total liabilities	47,866,145	72,206,502	59,854,255	62,045,376	10,395,024	9,471,611
Shareholders' equity	$83,289,800	$102,062,326	$124,096,629	$122,002,170	$106,672,127	$44,611,985
(1) Shares used in computing earnings per share:						
Basic	10,519,701	10,499,305	10,496,225	10,484,764	8,787,334	6,068,713
Diluted	10,519,701	10,499,305	10,951,447	10,942,146	9,151,903	6,361,181

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

Overview

RCM Technologies is a premier provider of business and technology solutions designed to enhance and maximize the performance of its customers through the adaptation and deployment of advanced information technology and engineering services. RCM is an innovative leader in the design, development and delivery of these services to various industries. RCM's offices are located throughout North America, including many major metropolitan centers. The Company provides a diversified and extensive range of service offerings and deliverables. Its portfolio of Information Technology services includes e-Business, Enterprise Management, Enterprise Application Integration and Supply Chain. RCM's Engineering services focus on Engineering Design, Technical Support, and Project Management and Implementation. The Company's Commercial services business unit provides Healthcare contract professionals as well as Clerical and Light Industrial temporary personnel. The Company provides its services to clients in banking and finance, healthcare, insurance, aerospace, pharmaceutical, telecommunications, utility, technology, manufacturing and distribution and government sectors. The Company believes that the breadth of services 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 branch offices located in selected regions throughout North America. The Company has executed a regional strategy to better leverage its consulting services offering. The Company has also implemented a reorganization of its Solutions practices to centralize management oversight and to expand the sales and marketing of those services.

Many of the Company's clients are facing challenging economic times. This is creating uncertainty in their ability to pursue technology projects, which had previously been considered a competitive imperative. Many clients are laying off their own permanent staff and reducing the demand for consulting services in attempts to maintain profitability. This has had a direct impact on RCM's revenues.

Most companies have recognized the importance of the Internet and information management technologies to competing in today's business climate. However, the uncertain economic environment curtailed companies' motivation for rapid adoption of many technological enhancements. The process of designing, developing and implementing software solutions has become increasingly complex. Companies today are focused on return on investment analysis in prioritizing the initiatives they undertake. This has had the effect of delaying or totally negating the spending on many emerging new solutions, which were formally anticipated.

Nonetheless, IT managers must integrate and manage computing environments consisting of multiple computing platforms, operating systems, databases and networking protocols, and must implement packaged software applications to support existing business objectives. Companies also need to continually keep pace with new developments, which often render existing equipment and internal skills obsolete. Consequently, business drivers cause IT managers to support increasingly complex systems and applications of significant strategic value, while working under budgetary, personnel and expertise constraints. This has given rise to increasing demand for outsourcing. Clients are increasingly evaluating the potential for outsourcing business critical applications and entire business functions. The Company is positioned to take advantage of this accelerating trend.

The Company presently 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 Company also provides project management and consulting work which are billed either by an agreed upon fixed fee or hourly rates, or a combination of both. The billing rates and profit margins for project management and solutions work are higher than those for professional consulting services. The Company is currently working to expand its sales of higher margin solution and project management services.

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

Overview (Continued)

The majority of the Company's services are provided under purchase orders. Contracts are utilized on more of the complex assignments where the engagements are for longer terms or where precise documentation on the nature and scope of the assignment is necessary. Contracts, although they normally relate to longer-term and more complex engagements, generally 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.

Costs of services consist primarily of salaries and compensation-related expenses for billable consultants, including payroll taxes, employee benefits and insurances. 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 acquisition program and corporate marketing, administrative and reporting responsibilities. The Company records these expenses when incurred. Depreciation relates primarily to the fixed assets of the Company. Amortization relates principally to the goodwill resulting from the Company's acquisitions. These acquisitions have been accounted for under the purchase method of accounting for financial reporting purposes and have created goodwill, which is being amortized over a 20-year period effective January 1, 2000. See Footnote 1 to financial statements.

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

	Year Ended December 31, 2001		Year Ended December 31, 2000		Year Ended October 31, 1999	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues	$224,894	100.0%	$296,000	100.0%	$313,386	100.0%
Cost of services	162,098	72.1	217,516	73.5	236,747	75.5
Gross profit	62,796	27.9	78,486	26.5	76,639	24.5
Selling, general and administrative	43,094	19.2	54,846	18.5	48,089	15.3
Depreciation	1,125	.5	1,154	.4	863	.3
	44,219	19.7	56,000	18.9	48,952	15.6
Income before other expense (income), income taxes, goodwill amortization, and unusual charges	18,577	8.3	22,486	7.6	27,687	8.9
Other expense	(2,268)	(1.0)	(3,702)	(1.3)	(920)	(.3)
Income before income taxes and goodwill amortization	16,309	7.3	18,784	6.3	26,767	8.6
Income taxes	6,922	3.1	7,673	2.6	10,287	3.3
Income before goodwill amortization	9,387	4.2	11,111	3.7	16,480	5.3
Goodwill amortization, net of income tax benefit	(5,385)	2.4	(4,390)	(1.5)	(1,532)	(.5)
Goodwill impairment, restructuring and unusual charges, net of tax benefit	(22,758)	10.0	(28,617)	(9.7)		
Net income (loss)	($ 18,756)	(8.3)%	($ 21,896)	(7.4)%	$14,948	4.8%
Earnings per share						
Basic:						
Income before goodwill amortization and unusual charges	$.89		$1.06		$1.58	
Goodwill amortization	(.51)		(.42)		(.15)	
Unusual charges	(2.16)		(2.73)			
Net income (loss)	($1.78)		($2.09)		$1.43	
Diluted:						
Income before goodwill amortization and unusual charges	$.89		$1.06		$1.51	
Goodwill amortization	(.51)		(.42)		(.14)	
Unusual charges	(2.16)		(2.73)			
Net income (loss)	($1.78)		($2.09)		$1.37	

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

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenues. Revenues decreased 24.0%, or $71.1 million, for fiscal 2001 as compared to fiscal 2000. The revenue decline was primarily attributable to softness in the information technology ("IT") sector. Management attributes this softness to overall economic conditions as well as a hesitancy by customers to launch new capital spending programs.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000(Continued)

Cost of Services. Cost of services decreased 25.5%, or $55.4 million, for fiscal 2001 as compared to fiscal 2000. This decrease was primarily due to a decrease in salaries and compensation associated with the decreased revenues experienced during fiscal 2001. Cost of services as a percentage of revenues decreased to 72.1% for fiscal 2001 from 73.5% for fiscal 2000. This decline was primarily attributable to continuing efforts by the Company to seek higher margin business. However, there can be no assurances that this improvement in gross margin percentage will continue.

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses decreased 21.4%, or $11.8 million, for fiscal 2001 as compared to fiscal 2000. This decrease was primarily attributable to a reduction in revenues and a corresponding reduction in the related variable costs and cost cutting initiatives. SGA expenses, as a percentage of revenues was 19.2% for fiscal 2001 as compared 18.5% for fiscal 2000. The 0.7% increase results from certain SGA costs, which could not be reduced in direct portion to the reduction in revenues.

Depreciation. Depreciation decreased 2.5%, or $29,000, for fiscal 2001 as compared to fiscal 2000. This decrease was primarily due to write down of certain fixed assets to net realizable value in fiscal 2000.

Other (Expense) Income, Net. Other (expense) income consists principally of interest expense, net of interest income. For fiscal 2001, actual interest expense of $2.6 million was offset by $297,000 of interest income, which was earned from the investment in interest bearing deposits. Interest expense, net decreased 38.7%, or $1.4 million for fiscal 2001 as compared to fiscal year 2000. This decrease was primarily due to the increased cash derived from operating activities, which was used to reduce interest-bearing debt.

Income Tax. Income tax expense decreased $751,000, for fiscal 2001 as compared to fiscal 2000. This decrease was attributable to a lower level of income before taxes and goodwill amortization for fiscal 2001 compared to fiscal 2000.

Goodwill Amortization. Goodwill amortization for fiscal 2001 and fiscal 2000 was net of income tax benefit of $706,000 and $1.1 million, respectively. Goodwill amortization net of tax benefit increased 22.7% or $995,000 for fiscal 2001 as compared to fiscal 2000. This increase was primarily due to the amortization of intangible assets acquired in connection with acquisitions completed prior to fiscal 2001.

Restructuring and Non-Recurring Charges. As a result of the softness experienced in the IT sector and the resultant revenue decline, management had been closely monitoring the operating results of its IT branches throughout the year, instituting significant reduction in selling, general and administrative expenses and increasing efforts to revitalize sales levels. However, during the fourth quarter, given the current economic environment and continued reduction of capital spending on technology, management determined that operating performance of certain of its branches indicated that the possibility of impairment of goodwill arising at acquisition might be impaired. Based on current operating results and existing business conditions, management projected cash flows for these branches and compared such projected flows to the carrying value of the respective branch's goodwill. The analysis revealed that goodwill, amounting to approximately $35.0 million ($22.8 million after taxes) had been impaired and, therefore, would not be recoverable through future profitable operations of these branches.

Year Ended December 31, 2000 Compared to Year Ended October 31, 1999

General. The Company changed its fiscal year end to December 31 from October 31. Accordingly, the following discussion compares the twelve-month period ended December 31, 2000 ("fiscal 2000") with the twelve-month period ended October 31, 1999 ("fiscal 1999").

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

Year Ended December 31, 2000 Compared to Year Ended October 31, 1999 (Continued)

Revenues. Revenues decreased 5.5%, or $17.4 million, for fiscal 2000 as compared to fiscal 1999. Revenue decline was primarily attributable to a loss of certain engineering contracts and softness in the information technology ("IT") sector.

Cost of Services. Cost of services decreased 8.1%, or $19.2 million, for fiscal 2000 as compared to fiscal 1999. This decrease was primarily due to a decrease in salaries and compensation associated with the decreased revenues experienced during fiscal 2000 that was partially offset by an increase in gross margin percentage from information technology. Cost of services as a percentage of revenues decreased to 73.5% for fiscal 2000 from 75.5% for fiscal 1999. This decline was primarily attributable to a continuing increase of the Company's revenues being derived from information technology and other professional services, which offer higher margins than other services.

Selling, General and Administrative. Selling, general and administrative expenses increased 14.1%, or $6.8 million, for fiscal 2000 as compared to fiscal 1999. Selling, general and administrative expenses as a percentage of revenues increased to 18.5% for fiscal 2000 as compared to 15.3% for fiscal 1999. The increase in percentage was primarily attributable to increased expenditures required to upgrade and support back office administrative systems as well as expenditures attributable to acquisitions subsequent to December 31, 1999.

Depreciation. Depreciation increased 33.7%, or $291,000, for fiscal 2000 as compared to fiscal 1999. This increase was primarily due to the depreciation of property and equipment associated with infrastructure improvements that occurred during the previous fiscal periods.

Other (Expense) Income, Net. Other (expense) income consists principally of interest expense, net of interest income. For fiscal 2000, actual interest expense of $4.0 million was offset by $315,000 of interest income, which was earned from the investment in interest bearing deposits. Interest expense, net increased 302%, or $2.8 million for fiscal 2000 as compared to fiscal year 1999. This increase was primarily due to the increased borrowing requirements necessary to complete acquisitions subsequent to December 31, 1999, as well as to fund working capital requirements.

Income Tax. Income tax expense decreased $13.2 million, for fiscal 2000 as compared to fiscal 1999. This decline was attributable to a net loss for fiscal year 2000 arising in taxes recoverable of $7.4 million at December 31, 2000.

Goodwill Amortization. Goodwill amortization for fiscal 2000 and fiscal 1999 was net of income tax benefit of $1.1 million and $654,000, respectively. Goodwill amortization net of tax benefit increased 186.6% or $2.9 million for fiscal 2000 as compared to fiscal 1999. This increase was primarily due to a change in the amortization period of goodwill associated with acquisitions from 40 years to 20 years effective January 1, 2000. See footnote 1 to the financial statements.

Restructuring and Non-Recurring Charges. The Company performs an impairment review on a quarterly basis in accordance with the requirements of SFAS No.
121. In the third quarter of 2000, the Company recorded an impairment of goodwill, a restructuring charge associated with the consolidation of certain offices and certain non recurring items associated with the integration of employee benefit plans and vacation plans in the amounts of $35.3 million, $1.4 million and $2.1 million, respectively. Restructuring and non-recurring charges reduced income before the related tax benefits for fiscal 2000 by $38.8 million, and by $28.6 million after the related tax benefits.

Liquidity And Capital Resources

Operating activities provided $29.9 million of cash for fiscal 2001 as compared to operating activities providing $26.7 million and using $3.8 million of cash during fiscal 2000 and 1999, respectively. The increase in cash provided by operating activities in fiscal 2001 was primarily attributable to decreases in accounts receivable, income tax refund receivable, prepaid expenses and other current assets and a non-cash goodwill impairment charge. The aforementioned items were partially offset by an increase in deferred tax asset and decreases in accounts payable and accrued expenses, accrued payroll and income taxes payable.

Investing activities used $15.0 million for fiscal 2001 as compared to using $27.4 million and $58.0 million in fiscal 2000 and 1999, respectively. The reduction in the use of cash for investing activities for the fiscal year 2001 as compared to fiscal 2000 was primarily attributable to a reduction in acquisition and deferred consideration payments.

Financing activities (principally debt reduction activities) used $15.6 million for fiscal 2001 as compared to financing activities providing $43,000 for fiscal 2000. As the Company accumulates cash from operations, it often uses the cash to reduce its borrowings under the Revolving Credit Facility but may consider using cash in the future for different purposes.

The Company and its subsidiaries are parties to an agreement with Citizens Bank, N.A. (successor to Mellon Bank, N.A.), administrative agent for a syndicate of banks, which provides for a $75.0 million Revolving Credit Facility (the "Revolving Credit Facility"). Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company. These alternatives are: LIBOR (London Interbank Offered Rate), plus applicable margin, or the agent bank's prime rate.

Borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of all 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 2002. Management of the Company has commenced negotiations for renewal or replacement of the Revolving Credit Facility. Management has renewed this Revolving Credit Facility in the past and anticipates that it will do so again. The weighted average interest rates for the years ended December 31, 2001 and 2000 were 6.49% and 8.33%, respectively. The amounts outstanding under the Revolving Credit Facility at December 31, 2001 and 2000 were $31.5 million and $47.3 million, respectively.

The Company anticipates that its primary uses of capital in future periods will be for working capital purposes. Funding for any future acquisitions will be derived from the Revolving Credit Facility, funds generated through operations, or future financing transactions.

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 anticipate entering into any such commitments during the next twelve months. The Company's current commitments consist primarily of lease obligations for office space. The Company believes that its capital resources are sufficient to meet its present obligations and those to be incurred in the normal course of business for the next 12 months. Although, the Company currently believes that it has sufficient capital resources to meet its anticipated working capital and capital expenditures beyond the next 12 months, unanticipated events and opportunities may make it necessary for the Company to increase its current credit facility or establish new credit facilities or raise capital in public and/or private transactions in order to meet its capital requirements.

Liquidity And Capital Resources (Continued)

The Company is involved in several litigation matters. See Note 15 to the Financial Statements. Should a significant number of such matters be resolved against the Company, the Company will need to devote capital it anticipates using for other purposes to such litigation matters, which could result in an increased need for capital.

Seasonal Variations

The number of billing days in the quarter and the seasonality of its customers' businesses affect the Company's quarterly results. The Company usually experiences higher revenues in its first and second quarters due to increased economic activity and experiences lower revenues in the third and fourth quarters of the fiscal years.

Impact of Inflation

The effects of inflation on the Company's operations were not significant during the periods presented.

Recently Issued Accounting Standards

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for the Company are as follows: (1) all business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001, (2) intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability, (3) goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective January 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization, (4) effective January 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator, (5) all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting. The adoption of SFAS No. 142 will have a significant impact on the results of operations of the Company.

In August 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 retains the existing requirements to recognize and measure the impairment of long-lived assets to be held and used or to be disposed of by sale. However, SFAS 144 makes changes to the scope and certain measurement requirements of existing accounting guidance. SFAS 144 also changes the requirements relating to reporting the effects of a disposal or discontinuation of a segment of a business. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of this statement is not expected to have a significant impact on the financial condition or results of operations of the Company.

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. 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 31, 2001, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The financial statements, together with the report of the Company's independent auditors, begin on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information in the 2002 Proxy Statement beginning immediately following the caption "ELECTION OF DIRECTORS" to, but not including, the caption "EXECUTIVE COMPENSATION" and the additional information in the 2002 Proxy Statement beginning immediately following the caption "COMPLIANCE WITH
SECTION 16(a) OF THE EXCHANGE ACT" to, but not including, the caption "BOARD MEETINGS AND COMMITTEES" is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information in the 2002 Proxy Statement beginning immediately following the caption "EXECUTIVE COMPENSATION" to, but not including, the caption "COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURNS" and the additional information in the 2002 Proxy Statement beginning immediately following the caption "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION" to, but not including, the caption "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information in the 2002 Proxy Statement beginning immediately following the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS AND MANAGEMENT" to, but not including, the caption "ELECTION OF DIRECTORS" is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information in the 2002 Proxy Statement beginning immediately following the caption "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

3. See Item (c) below.

(b) Reports on Form 8-K

None.

(c) 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)	Bylaws, as amended; incorporated by reference to Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1996.
	(4)(a)	Rights Agreement dated as of March 14, 1996, between RCM Technologies, Inc. and American Stock Transfer & Trust Company, as Rights Agent; incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated March 21, 1996.
	(10)(a)	Loan and Security Agreement dated August 19, 1998 between RCM Technologies, Inc. and all of its Subsidiaries and Mellon Bank, N.A. as Agent; incorporated by reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1998.
	(10)(b)	RCM Technologies, Inc. 1992 Incentive Stock Option Plan; incorporated by reference to Exhibit A of the Registrant's Proxy Statement dated April 23, 1992, filed with the Commission on March 9, 1992.
	(10)(c)	RCM Technologies, Inc. 1994 Non-employee Director Stock Option Plan; incorporated by reference to Exhibit A of the Registrant's Proxy Statement dated May 19, 1994, filed with the Commission on June 22, 1994.
	(10)(d)	RCM Technologies, Inc. 1996 Executive Stock Option Plan dated August 15, 1996; incorporated by reference to Exhibit 10(l) to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1996 (the "1996 10-K").
*		(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 dated March 21, 1997 (Commission File No. 333-23753).
*	(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.
	(10)(g)	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.
	(10)(h)	RCM Technologies, Inc. 2000 Employee Stock Incentive Plan; incorporated by reference to Exhibit A to the Registrant's Proxy Statement dated March 3, 2000, filed with the Commission on February 28, 2000.
	(10)(j)	Amended Loan and Security Agreement dated October 10, 2001 between RCM Technologies, Inc. and all of its Subsidiaries and Mellon Bank, N.A. as Agent (filed herewith).
	(11)	Computation of Earnings Per Share.
	(21)	Subsidiaries of the Registrant.
	(23)	Consent of Grant Thornton, LLP.

* Constitutes a management contract or compensatory plan or arrangement.

SIGNATURES

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

RCM Technologies, Inc.

Date: February 19, 2002

By:/s/ Leon Kopyt
Leon Kopyt
Chairman, President,
Chief Executive Officer and Director

Date: February 19, 2002

By:/s/ Stanton Remer
Stanton Remer
Chief Financial Officer, Treasurer,
Secretary and Director

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

Date: February 19, 2002

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

Date: February 19, 2002

/s/ Brian Delle Donne
Brian Delle Donne
Chief Operating Officer
(Principal Operating Officer)
and Director

Date: February 19, 2002

/s/ Stanton Remer
Stanton Remer
Chief Financial Officer, Treasurer,
Secretary
(Principal Financial and
Accounting Officer) and Director

Date: February 19, 2002

/s/ Norman S. Berson
Norman S. Berson
Director

Date: February 19, 2002

/s/ Robert B. Kerr
Robert B. Kerr
Director

Date: February 19, 2002

/s/ David Gilfor
David Gilfor
Director

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

FORM 10-K

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2001 and 2000

ASSETS

	2001	2000
Current assets		
Cash and cash equivalents	$ 2,289,743	$ 3,170,658
Accounts receivable, net of allowance for doubtful accounts of $1,795,000 and $1,875,000 in 2001 and 2000, respectively	41,174,828	64,032,564
Income tax refund receivable	6,810,093	7,417,258
Prepaid expenses and other current assets	2,968,612	3,161,235
Deferred tax assets	5,600,000	1,449,518
Total current assets	58,843,276	79,231,233
Property and equipment, at cost		
Equipment and leasehold improvements	11,131,750	10,238,480
Less: accumulated depreciation and amortization	4,282,985	4,079,857
	6,848,765	6,158,623
Other assets		
Deposits	175,691	223,512
Intangible assets, net of accumulated amortization of $10,669,000 and $7,878,000 in 2001 and 2000, respectively	62,619,400	88,655,460
Deferred tax assets	2,668,813	
	65,463,904	88,878,972
Total assets	$131,155,945	$174,268,828

The accompanying notes are an intergral part of these financial statements

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
December 31, 2001 and 2000

LIABILITIES AND SHAREHOLDERS' EQUITY

	2001	2000
Current liabilities		
Note payable	$31,500,000	$
Accounts payable and accrued expenses	8,653,876	13,610,547
Accrued payroll	5,137,336	7,691,258
Payroll and withheld taxes	375,784	1,311,828
Income taxes payable	2,199,149	108,996
Total current liabilities	47,866,145	22,722,629
Long-term liabilities		
Note payable	-	47,300,000
Income taxes payable	-	2,183,873
	-	49,483,873
Shareholders' 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; 10,571,761 and 10,499,651 shares issued and outstanding in 2001 and 2000, respectively	528,588	524,982
Accumulated other comprehensive loss	(484,283)	(233,631)
Additional paid-in capital	93,746,569	93,516,080
(Accumulated deficit) retained earnings	(10,501,074)	8,254,895
	83,289,800	102,062,326
Total liabilities and shareholders' equity	$131,155,945	$174,268,828

The accompanying notes are an intergral part of these financial statements

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2001 and 2000, Two Months Ended December 31, 1999 and Year Ended October 31, 1999

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Revenues	$224,893,800	$296,001,276	$51,397,429	$313,385,772
Cost of services	162,098,191	217,515,660	38,178,972	236,746,446
Gross profit	62,795,609	78,485,616	13,218,457	76,639,326
Operating costs and expenses				
Selling, general and administrative	43,093,799	54,845,757	8,703,066	48,088,801
Depreciation	1,124,601	1,153,998	186,588	862,642
Amortization	6,292,942	5,494,141	468,453	2,185,690
Unusual items				
Impairment of goodwill	34,993,435	35,334,972		
Restructuring charge		1,371,740		
Non recurring		2,100,000		
	85,504,777	100,300,608	9,358,107	51,137,133
Operating income (loss)	(22,709,168)	(21,814,992)	3,860,350	25,502,193
Other income (expenses)				
Interest (expense), net of interest income	(2,289,096)	(3,677,577)	(550,734)	(920,208)
Gain (loss) on foreign currency transactions	20,837	(24,728)	2,766	
	(2,268,259)	(3,702,305)	(547,968)	(920,208)
Income (loss) before income taxes	(24,977,427)	(25,517,297)	3,312,382	24,581,985
Income taxes (credit)	(6,221,458)	(3,620,911)	1,261,389	9,633,737
Net income (loss)	($18,755,969)	($ 21,896,386)	$2,050,993	$14,948,248
Basic earnings (loss) per share	($1.78)	($2.09)	$.20	$1.43
Weighted average number of common shares outstanding	10,519,701	10,499,305	10,496,225	10,484,764
Diluted earnings (loss) per share	($1.78)	($2.09)	$.19	$1.37
Weighted average number of common and common equivalent shares outstanding	10,519,701	10,499,305	10,951,447	10,942,146

The accompanying notes are an intergral part of these financial statements

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2001 and 2000, Two Months Ended December 31, 1999 and Year Ended October 31, 1999

	Common Stock Shares	Amount	Accumulated Other Comprehensive Loss	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)
Balance, October 31, 1998	10,447,525	$522,376	$	$92,997,711	$13,152,040
Exercise of stock options	48,700	2,435		475,590	
Translation adjustment			(96,230)		
Net income					14,948,248
Balance, October 31, 1999	10,496,225	524,811	(96,230)	93,473,301	28,100,288
Translation adjustment			43,466		
Net income					2,050,993
Balance, December 31, 1999	10,496,225	524,811	(52,764)	93,473,301	30,151,281
Exercise of stock options	3,426	171		42,779	
Translation adjustment			(180,867)		
Net loss					(21,896,386)
Balance, December 31, 2000	10,499,651	524,982	(233,631)	93,516,080	8,254,895
Issuance of stock under employee stock purchase plan	72,110	3,606		230,489	
Translation adjustment			(250,652)		
Net loss					(18,755,969)
Balance, December 31, 2001	10,571,761	$528,588	($484,283)	$93,746,569	($10,501,074)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE

(LOSS) INCOME Years Ended December 31, 2001 and 2000, Two Months Ended December 31, 1999 and Year Ended October 31, 1999

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Net (loss) income	($18,755,969)	($21,896,386)	$2,050,993	$14,948,248
Foreign currency translation adjustment	(250,602)	(180,867)	43,466	(96,230)
Comprehensive (loss) income	($19,006,571)	($22,077,253)	$2,094,459	$14,852,018

The accompanying notes are an intergral part of these financial statements

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2001 and 2000, Two Months Ended December 31, 1999 and Year Ended October 31, 1999

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Cash flows from operating activities:				
Net income (loss)	($18,755,969)	($21,896,386)	$2,050,993	$14,948,248
Adjustments to reconcile net Income (loss) to net cash provided by(used in)operating activities:				
Depreciation and amortization	7,417,543	6,648,139	655,041	3,048,332
Provision for allowances on accounts receivable	(80,000)	861,000	12,000	516,000
Restructuring and unusual charges	34,993,435	38,806,712		
Changes in assets and liabilities:				
Accounts receivable	22,937,736	1,761,114	4,724,919	(31,227,328)
Income tax refund receivable	607,165	(7,417,258)		
Deferred tax	(6,819,295)	(1,449,518)		
Prepaid expenses and other current assets	192,627	(1,148,515)	(77,902)	(1,979,496)
Accounts payable and accrued expenses	(6,999,251)	8,052,333	(3,551,439)	5,180,268
Accrued payroll	(2,553,922)	952,494	(3,903,028)	4,037,617
Payroll and withheld taxes	(936,044)	42,563	265,715	(626,395)
Income taxes payable	(93,720)	1,501,695	(1,524,677)	2,258,862
Total adjustments	48,666,274	48,610,759	(3,399,371)	(18,792,140)
Net cash provided by (used in) operating activities	$29,910,305	$26,714,373	($1,348,378)	($3,843,892)

The accompanying notes are an intergral part of these financial statements

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS -

CONTINUED Years Ended December 31, 2001 and 2000, Two Months Ended December 31, 1999 and Year Ended October 31, 1999

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Cash flows from investing activities:				
Property and equipment acquired	($1,799,552)	($1,721,434)	($ 333,902)	($3,829,995)
Decrease (increase) in deposits	47,821	(17,634)	(4,393)	(55,609)
Cash paid for acquisitions, net of cash acquired	(13,222,932)	(25,692,538)	(2,371,937)	(54,098,883)
Net cash used in investing activities	(14,974,663)	(27,431,606)	(2,710,232)	(57,984,487)
Cash flows from financing activities:				
Borrowings (repayments) of note payable	(15,800,000)		6,500,000	40,800,000
Sale of stock for employee stock purchase plan	234,095			
Exercise of stock options		42,950		478,025
Net cash provided by (used in) financing activities	(15,565,905)	42,950	6,500,000	41,278,025
Effect of exchange rate changes on cash and cash equivalents	(250,652)	(180,867)	43,466	(96,230)
Net increase (decrease) in cash and cash equivalents	(880,915)	(855,150)	2,484,856	(20,646,584)
Cash and cash equivalents at beginning of year	3,170,658	4,025,808	1,540,952	22,187,536
Cash and cash equivalents at end of year	$2,289,743	$3,170,658	$4,025,808	$1,540,952
Supplemental cash flow information:				
Cash paid for:				
Interest expense	$2,645,404	$4,215,266	$ 613,492	$ 786,064
Income taxes	793,591	4,831,496	3,005,006	7,374,875
Acquisitions:				
Fair value of assets acquired, including contingent consideration payments	13,222,932	40,506,867	2,371,937	64,365,991
Liabilities assumed		14,814,329		10,267,108
Cash paid, net of cash acquired	$13,222,932	$25,692,538	$2,371,937	$54,098,883

The accompanying notes are an intergral part of these financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, 1999 and October 31, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

RCM Technologies is a premier provider of business and technology solutions designed to enhance and maximize the 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 generally accepted accounting principles 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.

Change in Reporting Year

In January 2000, the Company changed its fiscal year end from October 31 to December 31. As a result of this change, the two months ended December 31, 1999 are presented as a transitional period.

Change in Accounting Estimate

Effective January 1, 2000, the Company has changed the amortization period of goodwill associated with acquisitions from 40 years to 20 years. This change had the effect of increasing goodwill amortization and reducing net income by approximately $3,146,000 or $.29 on a diluted earnings per share basis, for the year ended December 31, 2001 and approximately $2,747,000, or $.26 on a diluted earnings per share basis, for the year ended December 31, 2000.

Property and Equipment

Depreciation of equipment is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives on the straight-line basis. Estimated useful lives range from five to ten years. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Software

In accordance with Statement of Position ("SOP") 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use," certain costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software. During the years ended December 31, 2001 and 2000, the Company capitalized approximately $176,000 and $506,000, respectively, of software costs in conformity with SOP 98-1.

Income Taxes

The Company and its wholly owned subsidiaries file a consolidated federal income tax return. The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is recognized concurrently with the performance of services. Unbilled receivables represent employee hours worked according to contractual billing rates.

Cash Equivalents

For purposes of presenting the consolidated statement of cash flows, the Company considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Goodwill

The net assets of businesses acquired, which are accounted for as purchases, have been reflected at their fair values at dates of acquisition. The excess of acquisition costs over such net assets (goodwill) is reflected in the consolidated balance sheets as Intangible Assets. Goodwill, net of amortization, at December 31, 2001 and 2000 was $62,619,000 and $88,655,000, respectively, and is being amortized on a straight-line method over twenty years effective January 1, 2000. The amortization period prior to January 1, 2000 was 40 years. Amortization expense for the years ended December 31, 2001, 2000 and October 31, 1999 was $6,293,000, $5,494,000 and $2,156,000, respectively. Amortization expense for the two months ended December 31, 1999 was $468,000.

It is the Company's policy to periodically review the net realizable value of its intangible assets, including goodwill, through an assessment of the estimated future cash flows related to such assets. Each business unit to which these intangible assets relate is reviewed to determine whether future cash flows over the remaining estimated useful lives of the assets provide for recovery of the assets. In the event that assets are found to be carried at amounts that are in excess of estimated undiscounted future cash flows, then the intangible assets are adjusted for impairment to a level commensurate with an undiscounted cash flow analysis of the underlying assets. The Company performs an impairment review on a quarterly basis in accordance with the requirements of SFAS No. 121. During the fourth quarter of calendar 2001 and the third quarter of calendar 2000, the reviews indicated that there was an impairment of value, which resulted in a $35.0 million and $35.3 million charge to expense for the year ended December 31, 2001 and 2000, respectively, in order to properly reflect the appropriate carrying value of goodwill. There were no impairment write-downs during the year ended October 31, 1999 or during the two months ended December 31, 1999.

Fair Value of Financial Instruments

The carrying value of significant financial instruments approximates fair value because of the nature and characteristics of its financial instruments. The Company's financial instruments are accounts receivable, accounts payable, note payable and investments held in the deferred compensation plan. The Company does not have any off-balance sheet financial instruments or derivatives.

Foreign Currency

For foreign subsidiaries using the local currency as their functional currency, assets and liabilities are translated at exchange rates in effect at the balance sheet date and income and expenses are translated at average exchange rates. The effects of these translation adjustments are reported in other comprehensive income. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved are included in income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Dilutive securities have not been included in the weighted average shares used for the calculation of earnings per share in periods of net loss because the effect of such securities would be anti-dilutive. 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 was determined as follows:

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Basic average shares outstanding	10,519,701	10,499,305	10,496,225	10,484,764
Dilutive effect of stock options			455,222	457,382
Dilutive shares	10,519,701	10,499,305	10,951,447	10,942,146

Options to purchase 184,347 shares of common stock at prices ranging from $4.75 to $15.31 per share were outstanding during the year ended December 31, 2001, but were not included in the computation of diluted EPS because of net loss incurred in 2001.

Options to purchase 691,974 shares of common stock at prices ranging from $10.63 to $20.13 per share were outstanding during the year ended December 31, 2000, but were not included in the computation of diluted EPS because of net loss incurred in 2000.

Options to purchase 271,650 shares of common stock at prices ranging from $14.13 to $20.13 per share were outstanding during the two months ended December 31, 1999, but were not included in the computation of diluted EPS because their exercise prices were greater than the average market price of the common shares.

Options to purchase 214,650 shares of common stock at prices ranging from $14.13 to $20.13 per share were outstanding during the year ended October 31, 1999, but were not included in the computation of diluted EPS because their exercise prices were greater than the average market price of the common shares.

Stock-Based Compensation

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123"), which establishes accounting and reporting standards for stock-based employee compensation plans. As permitted by the standard, the Company has elected not to adopt the fair value based method of accounting for stock-based employee compensation and will continue to account for such arrangements under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and apply SFAS 123 on a disclosure basis only. Accordingly, adoption of the standard has not affected the Company's results of operations or financial position (see Note 7).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for the Company are as follows: (1) all business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001, (2) intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability, (3) goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective January 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization, (4) effective January 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator, (5) all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

Effective January 1, 2002, annual and quarterly goodwill amortization of approximately $3.7 million and $900,000, respectively, will no longer be recognized. By December 31, 2002 the Company will have completed a transitional fair value based impairment test of goodwill as of January 1, 2002. Impairment losses, if any, resulting from the transitional testing will be recognized in the quarter ended March 31, 2002, as a cumulative effect of a change in accounting principle.

In August 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 retains the existing requirements to recognize and measure the impairment of long-lived assets to be held and used or to be disposed of by sale. However, SFAS 144 makes changes to the scope and certain measurement requirements of existing accounting guidance. SFAS 144 also changes the requirements relating to reporting the effects of a disposal or discontinuation of a segment of a business. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of this statement is not expected to have a significant impact on the financial condition or results of operations of the Company.

2. UNUSUAL ITEMS

During the years ended December 31, 2001 and 2000, the Company recorded the following unusual items:

In Millions	2001	2000
Impairment of goodwill	$35.0	$35.3
Restructuring charge		1.4
Other nonrecurring charges		2.1
	$35.0	$38.8

2. UNUSUAL ITEMS (CONTINUED)

The income before income taxes, net income and earnings per share on a diluted basis, for the year ended December 31, 2001 without the unusual items and its related tax effect would have been $10.0 million, $4.0 million and $.37 per share, respectively. The weighted average shares outstanding for this computation include common stock equivalents.

The income before income taxes, net income and earnings per share on a diluted basis, for the year ended December 31, 2000 without the unusual items and their related tax effect would have been $13.3 million, $6.7 million and $.63 per share, respectively. The weighted average shares outstanding for this computation include common stock equivalents.

Impairment of Goodwill

The Company performs an impairment review on a quarterly basis in accordance with the requirements of SFAS No. 121. During the fourth quarter of calendar 2001 and the third quarter of calendar 2000, the reviews indicated that there was an impairment of value, which resulted in a $35.0 million and $35.3 million charge to expense for the year ended December 31, 2001 and 2000, respectively, in order to properly reflect the appropriate carrying value of goodwill.

Restructuring Charge

The restructuring charge of $1.4 million for the year ended December 31, 2000 consists of expenses associated with the consolidation of certain offices, principally lease obligations for vacated offices as well as a write down of leasehold improvements and office equipment for closed offices to its net realizable values.

Other Non-Recurring Charges

The non-recurring charge of $2.1 million for the year ended December 31, 2000 consists of expenses associated with integration of employee benefit plans and vacation plans, which were assumed in connection with the Company's previously completed acquisitions.

3. ACQUISITIONS

During the three year and 2 month period ended December 31, 2001, the Company acquired 17 businesses in the staffing and consulting services industry. These acquisitions have been accounted for as purchases and, accordingly, the results of operations of the acquired companies have been included in the consolidated results of operations of the Company from the respective acquisition dates.

In connection with certain acquisitions, the Company is obligated to pay contingent consideration to the selling shareholders upon the acquired businesses achieving certain earnings targets over periods ranging from 2-3 years. In general, the contingent consideration amounts fall into two tiers: (a) tier 1 ("Deferred Consideration") - amounts are due, provided that these acquisitions achieve a base level of earnings which has been determined at the time of acquisition, and (b) tier 2 ("Earnouts") - amounts are not fixed and are based on the growth in excess of the base level earnings. As of December 31, 2001, the Company estimates that the sum of the Deferred Consideration and earnouts to be as follows:

Year Ending	Amount
2002	$ 5,500,000
2003	2,000,000
	$7,500,000

3. ACQUISITIONS (CONTINUED)

The Deferred Consideration and Earnouts, when paid, will be recorded as additional purchase consideration and added to intangible assets on the consolidated balance sheet. The Company's acquisition activities are as follows:

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Number of acquisitions		3		14
Consideration paid:				
Cash at closing		$10,375,000		$46,028,000
Deferred consideration payments	$13,200,000	$13,800,000		$34,095,000

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

	Year Ended December 31, 2001	Year Ended December 31, 2000
Revenues	$224,894,000	$300,501,000
Operating income before unusual items	12,284,000	18,554,000
Unusual items	(34,993,000)	(38,807,000)
Net loss	($18,756,000)	($21,101,000)
Loss per share, basic and diluted	($1.78)	($2.01)

4. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	December 31, 2001	December 31, 2000
Equipment and furniture	$3,370,458	$3,525,992
Computer equipment and software	7,197,481	6,626,559
Leasehold improvements	563,811	85,929
	11,131,750	10,238,480
Less: accumulated depreciation and amortization	4,282,985	4,079,857
	$6,848,765	$6,158,623

5. GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles consist of the following:

	December 31, 2001	December 31, 2000
Goodwill	$72,977,525	$96,070,746
Other intangibles	310,800	462,900
	73,288,325	96,533,646
Less: accumulated amortization	10,668,925	7,878,186
	$62,619,400	$88,655,460

6. NOTE PAYABLE

The Company and its subsidiaries entered into an agreement with Citizens Bank, N.A. (successor to Mellon Bank, N.A.), administrative agent for a syndicate of banks, which provides for a $75.0 million Revolving Credit Facility (the "Revolving Credit Facility"). The Revolving Credit Facility was amended on October 10, 2001. Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company. These alternatives are: LIBOR (London Interbank Offered Rate), plus applicable margin, or the agent bank's prime rate.

Borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of all 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 August 2002. Management of the Company has commenced negotiations for renewal or replacement of the Revolving Credit Facility. The weighted average interest rates for the years ended December 31, 2001 and 2000 were 6.49% and 8.33%, respectively. The amounts outstanding under the Revolving Credit Facility at December 31, 2001 and 2000 were $31.5 million and $47.3 million, respectively.

7. SHAREHOLDERS' EQUITY

Common Shares Reserved

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

	December 31, 2001	December 31, 2000
Exercise of options outstanding	2,415,780	2,039,539
Future grants of options	799,665	1,175,906
Total	3,215,445	3,215,445

7. SHAREHOLDERS' EQUITY (CONTINUED)

Incentive Stock Option Plans

On April 27, 2000, the shareholders approved the adoption of the RCM Technologies, Inc. 2000 Employee Stock Incentive Plan. At December 31, 2001, there were 695,501 shares of Common Stock reserved under the plan for issuance not later than January 6, 2010 to officers and key employees of the Company and its subsidiaries.

On April 21, 1999, the shareholders approved the adoption of the Amended and Restated RCM Technologies, Inc. 1996 Executive Stock Plan (the "Restated Plan"). At December 31, 2001, there were 57,109 shares of Common Stock reserved under the plan for issuance not later than January 1, 2006 to officers and key employees of the Company and its subsidiaries.

On April 23, 1998, the shareholders approved amendments to the RCM Technologies, Inc. 1992 Incentive Stock Option Plan ("1992 Plan") and the 1994 Non-Employee Director Stock Option Plan (the "Director Option Plan"). At December 31, 2001, there were 37,055 shares of Common Stock reserved under the 1992 Plan for issuance not later than February 13, 2002 to officers, directors and key employees of the Company and its subsidiaries. Options under the 1992 Plan are intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code. The option terms cannot exceed ten years and the exercise price cannot be less than 100% of the fair market value of the shares at the time of grant.

On May 19, 1994, the shareholders approved the Nonemployee Director Option Plan as a means of recruiting and retaining nonemployee directors of the Company. At December 31, 2001, there were 10,000 shares of Common Stock reserved under the plan for issuance not later than July 19, 2004. All director stock options are granted at fair market value at the date of grant. The exercise of options granted is contingent upon service as a director for a period of one year. If the optionee ceases to be a director of the Company, any option granted shall terminate.

The Company has adopted only the disclosure provisions of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). It applies APB Opinion No. 25 and related interpretations in accounting for its plans and does not recognize compensation expense for its stock-based compensation plans. Had compensation cost been determined based on the fair value of the options at the grant date consistent with SFAS 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Net (loss) earnings:				
As reported	($18,755,969)	($21,896,386)	$2,050,993	$14,948,248
Pro forma	($21,768,692)	($22,600,103)	$2,050,993	$11,869,395
Diluted (loss) earnings per share:				
As reported	($1.78)	($2.09)	$.19	$1.37
Pro forma	($2.07)	($2.15)	$.19	$1.08

7. SHAREHOLDERS' EQUITY (CONTINUED)

Incentive Stock Option Plans (Continued)

These proforma amounts may not be representative of future disclosures because they do not take into effect proforma compensation expense related to grants before November 1, 1995. The fair value of these options is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in fiscal years 2001, 2000 and 1999, respectively: expected volatility of 70%; risk-free interest rates of 5.91%, 5.91% and 5.10%; and expected lives of 5 years. The weighted-average fair value of options granted during fiscal years 2001, 2000 and 1999 was $4.66, $4.22 and $8.51, respectively.

Transactions related to all stock options are as follows:

	Year Ended December 31, 2001	Weighted-Average Exercise Price	Year Ended December 31, 2000	Weighted-Average Exercise Price	Year Ended October 31, 1999	Weighted-Average Exercise Price
Outstanding options at beginning of year	2,039,539	$8.85	1,359,170	$10.23	1,021,420	$8.86
Granted	593,999	3.08	791,974	7.03	437,500	13.90
Forfeited	(217,758)	7.59	(108,179)	12.54	(51,050)	11.41
Exercised			(3,426)	12.54	(48,700)	9.82
Outstanding options at end of year	2,415,780	$7.53	2,039,539	$8.85	1,359,170	$10.23
Exercisable options at end of year	1,580,565		1,367,795		1,159,170	
Option grant price per share	$3.00 to $15.31		$3.00 to $20.13		$5.16 to $20.13	

The following table summarizes information about stock options outstanding at December 31, 2001:

Range of Exercise Prices	Number of Outstanding Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$ 3.00 - $ 3.25	705,299	9.2 years	$ 3.08
$ 4.75 - $ 7.13	756,200	6.2 years	$ 6.32
$ 7.30 - $10.63	402,340	6.0 years	$10.04
$11.25 - $15.31	551,941	7.3 years	$12.94

7. SHAREHOLDERS' EQUITY (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 31, 2001, there were 72,110 shares issued under the Purchase Plan for net proceeds of $234,095. As of December 31, 2001, 427,890 shares were 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 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 may, at the discretion of the Board of Directors, make contributions of cash to match deferrals of compensation by participants. Contributions charged to operations by the Company for years ended December 31, 2001, 2000 and October 31, 1999 were $457,000, $694,000 and $329,000, respectively. Contributions charged to operations for the two months ended December 31, 1999 were $72,000.

Nonqualified Defined Compensation Plan

The Company implemented with shareholder approval a nonqualified deferred compensation plan, effective January 1, 2001 for officers and certain other management employees. The plan allows for compensation deferrals for its participants and a discretionary company contribution, subject to approval of the Board of Directors. As of December 31, 2001, the fair value of the assets held in trust under the deferred compensation plan was $338,000.

9. COMMITMENTS

Termination Benefits Agreement

The Company is party to a Termination Benefits Agreement with Mr. Kopyt, amended and restated as of March 18, 1997 (the "Benefits Agreement"). Pursuant to the Benefits Agreement, following a Change in Control (as defined therein) the remaining term of Mr. Kopyt's employment is extended for five years (the "Extended Term"). If Mr. Kopyt's employment is terminated thereafter by the Company other than for cause, or by Mr. Kopyt for good reason (including, among 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; the exercise price of the options to purchase 500,000 shares granted to Mr. Kopyt under the 1996 Executive Stock Plan will be reduced to 50% of the average market price of the Common Stock for the 60 days prior to the date of termination if the resulting exercise price is less than the original exercise price of $7.125 per share; 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 31, 2001, Mr. Kopyt would have been entitled to cash payments of approximately $3.2 million (representing salary and excise tax payments).

Operating Leases

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

Year ending December 31,	Amount
2002	$2,783,000
2003	2,083,000
2004	1,790,000
2005	1,184,000
2006	1,078,000
Thereafter	4,664,000
Total	$13,582,000

Rent expense for the years ended December 31, 2001, 2000 and October 31, 1999 was $2,633,000, $3,175,000 and $2,440,000, respectively. Rent expense for the two months ended December 31, 1999 was $488,000.

10. RELATED PARTY TRANSACTIONS

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

11. INCOME TAXES

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

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Current				
Federal		($1,846,000)	$920,089	$7,098,737
State and local	$597,837	(325,393)	341,300	2,535,000
	597,837	(2,171,393)	1,261,389	9,633,737
Deferred				
Federal	(6,456,915)	(1,297,000)		
State and local	(362,380)	(152,518)		
	(6,819,295)	(1,449,518)		
Total	($6,221,458)	($3,620,911)	$1,261,389	$9,633,737

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

	2001	2000	1999
Tax at statutory rate (credit)	(34.0)%	(34.0)%	34.0%
State income taxes, net of Federal Income tax benefit	(1.7)		6.7
Foreign income tax effect	8.7	1.9	3.4
Non-deductible unusual charges	4.0	20.3	
Other, net	(1.9)	(2.4)	(4.9)
Total income tax expense	(24.9)%	(14.2)%	39.2%

At December 31, 2001 and 2000, deferred tax assets consist of the following:

	2001	2000
Net operating loss carryforward	$8,268,813	
Unusual charges		$2,199,884
Allowance for doubtful accounts	695,000	712,500
	8,963,813	2,912,384
Less: valuation allowance	(695,000)	(1,462,686)
	$8,268,813	$1,449,518

At December 31, 2001, the Company had a net operating loss carryforward ("NOL") for federal income tax purposes of approximately $29.0 million. The Company can utilize the NOL to offset future consolidated federal taxable income. The NOL, if unused, would expire in the year 2021.

12. INTEREST EXPENSE, NET OF INTEREST INCOME

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

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Interest expense	($2,586,473)	($3,992,911)	($574,320)	($1,197,236)
Interest income	297,377	315,334	23,586	277,028
	($2,289,096)	($3,677,577)	($550,734)	($920,208)

13. SEGMENT INFORMATION

The Company adopted SFAS 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131"), which establishes standards for companies to report information about operating segments, geographic areas and major customers. The adoption of SFAS 131 has no effect on the Company's consolidated financial position, consolidated results of operations or liquidity. The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1).

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

Fiscal 2001	Information Technology	Professional Engineering	Commercial Services	Corporate	Total
Revenue	$157,952	$43,855	$23,087		$224,894
Operating expenses (1)	144,339	38,384	22,469		205,192
EBITDA (1) (2)	13,613	5,471	618		19,702
Unusual charges	30,044	4,949			34,993
Depreciation	794	276	55		1,125
Amortization	5,587	672	34		6,293
Operating income (loss) (1)	($22,812)	($426)	$529		($22,709)
Total assets	$85,306	$15,999	$5,489	$24,362	$131,156
Capital expenditures	$426	$173		$1,201	$1,800

13. SEGMENT INFORMATION (CONTINUED)

Fiscal 2000	Information Technology	Professional Engineering	Commercial Services	Corporate	Total
Revenue	$228,025	$40,993	$26,983		$296,001
Operating expenses (1)	207,894	38,559	25,908		272,361
EBITDA (1) (2)	20,131	2,434	1,075		23,640
Unusual charges	36,913	1,894			38,807
Depreciation	848	277	29		1,154
Amortization	4,821	630	43		5,494
Operating income (loss)(1)	($ 22,451)	($ 367)	$1,003		($ 21,815)
Total assets	$131,414	$17,591	$6,433	$18,831	$174,269
Capital expenditures	$827	$205	$56	$633	$1,721

Two Months Ended December 1999	Information Technology	Professional Engineering	Commercial Services	Corporate	Total
Revenue	$39,231	$8,286	$3,880		$51,397
Operating expenses	35,301	7,843	3,738		46,882
EBITDA (2)	3,930	443	142		4,515
Depreciation	137	48	2		187
Amortization	388	77	3		468
Operating income	$3,405	$ 318	$ 137		$3,860
Total assets	$148,811	$17,349	$6,338	$11,453	$183,951
Capital expenditures				$334	$334

13. SEGMENT INFORMATION (CONTINUED)

Fiscal 1999	Information Technology	Professional Engineering	Commercial Services	Corporate	Total
Revenue	$223,654	$62,887	$26,845		$313,386
Operating expenses	199,664	59,190	25,982		284,836
EBITDA (2)	23,990	3,697	863		28,550
Depreciation	576	269	18		863
Amortization	1,873	295	17		2,185
Operating income	$21,541	$3,133	$ 828		$25,502
Total assets	$156,468	$17,893	$4,767	$4,920	$184,048
Capital expenditures	$978	$77	$1	$2,774	$3,830

(1) Operating expenses, EBITDA and operating income are exclusive of unusual items during 2001 and 2000 in the amount of $35.0 million and $38.8 million, respectively (see note 2).

(2) EBITDA consists of earnings before interest income, interest expense, other non-operating income and expense, income taxes, depreciation and amortization and unusual charges. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered in isolation or as an alternative to net income as an indicator of a company's performance or to cash flows from operating activities as a measure of liquidity.

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

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Consolidated operating income (loss)	($22,709)	($21,815)	$3,860	$25,502
Interest (expense), net of interest income	(2,268)	(3,702)	(548)	(920)
Consolidated pretax profit (loss)	($24,977)	($25,517)	$3,312	$24,582

The Company derives a substantial majority of its revenue from companies headquartered in the United States. In fiscal 1999, 2000 and 2001, no single customer exceeded 6% of the Company's revenue. Revenues from Canadian operations for the years ended December 31, 2001 and, 2000 were $24.2 million and $16.4 million, respectively. Revenues from Canadian operations for the two months ended December 31, 1999 were $3.4 million. Revenues from Canadian operations for the year ended October 31, 1999 were $14.8 million.

14. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Year Ended December 31, 2001

	Sales	Gross Profit	Net Income (Loss)	Diluted Net Income (Loss) Per Share (a)
1st Quarter	$64,653,787	$18,071,917	$1,150,944	$.11
2nd Quarter	58,365,909	16,478,103	1,352,116	.13
3rd Quarter	53,051,269	14,648,594	758,796	.07
4th Quarter	48,822,835	13,596,995	(22,017,825)	(2.09)
Total	$224,893,800	$62,795,609	($18,755,969)	($1.78)

Year Ended December 31, 2000

	Sales	Gross Profit	Net Income (Loss)	Diluted Net Income (Loss) Per Share (a)
1st Quarter	$74,945,490	$19,039,291	$1,057,890	$.10
2nd Quarter	75,989,896	19,603,598	1,340,515	.13
3rd Quarter	73,656,343	20,223,806	(26,417,054)	(2.52)
4th Quarter	71,409,547	19,618,921	2,122,263	.20
Total	$296,001,276	$78,485,616	($21,896,386)	($2.09)

(a)Each quarterly amount is based on separate calculations of weighted average shares outstanding.

15. CONTINGENCIES

The Company has received claims and notices of possible claims from various persons from whom the Company acquired stock or assets in four separate acquisitions that occurred during 1998 and 1999. Such claims and possible claims are not related. These claims and possible claims relate to allegations of wrongful termination and failure of the Company to pay deferred consideration under the relevant acquisition agreements. In the opinion of management, the Company has meritorious defenses to such claims and does not believe that the resolution of such claims should have a material adverse effect on the Company, its financial position, its results of operations or its cash flows.

In 1998, two former officers filed suit against the Company alleging wrongful termination of their employment, wrongful failure to make severance payments and wrongful conduct by the Company in connection with the grant and non-vestiture of Stock Options to the plaintiffs. The complaint also alleged that the Company wrongfully limited the number of shares of Company stock that could be sold by the plaintiffs under a Registration Rights Agreement and made various other claims. The plaintiffs' complaint sought damages of approximately $480,000 and further sought additional unliquidated damages. The claims relating to wrongful termination of employment and wrongful conduct by the Company in connection with the grant of Stock Options to the plaintiffs have been resolved in binding arbitration. With respect to the Company's alleged wrongful limiting of the number of shares the plaintiffs could sell and one plaintiff's claim of entitlement to severance pay of $240,000, the Company is awaiting completion of discovery and the fixing of a trial date. The Company is also awaiting the court's ruling on its motion for summary judgment in its favor with respect to the plaintiffs' claims concerning the non-vestiture of their stock options. Substantial damages are being sought on the share-selling limitation and stock option claims; however, the alleged damages are subject to significant reduction for having been avoidable losses. Management believes the suit is without merit and will continue to defend the claims vigorously.

Independent Auditors' Report

Board of Directors
RCM Technologies, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of RCM Technologies, Inc. (a Nevada corporation) and Subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of operations, changes in shareholders' equity, comprehensive income (loss) and cash flows for years ended December 31, 2001 and 2000, the two months ended December 31, 1999, and for the year ended October 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes 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 31, 2001 and 2000 and the consolidated results of their operations and their consolidated cash flows for years ended December 31, 2001 and 2000, for the two months ended December 31, 1999, and the year ended October 31, 1999, in conformity with accounting principles generally accepted in the United States.

We have also audited Schedules I and II of RCM Technologies, Inc. and Subsidiaries as of years ended December 31, 2001 and 2000, as of and for the two months ended December 31, 1999, and the year ended October 31, 1999. In our opinion, these schedules present fairly, in all material respects, the information required to be set forth therein.

/s/ Grant Thornton LLP
Grant Thornton LLP
Philadelphia, Pennsylvania
February 8, 2002

SCHEDULE I

RCM TECHNOLOGIES, INC. (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEET
December 31, 2001 and 2000

ASSETS

	2001	2000
Current assets		
Prepaid expenses and other assets	$2,970	$62,440
Other assets		
Deposits		5,695
Long-term receivables from affiliates	83,337,402	102,046,691
	83,337,402	102,052,386
Total assets	$83,340,372	$102,114,826

LIABILITIES AND SHAREHOLDERS' EQUITY

	2001	2000
Current liabilities		
Accounts payable and accrued expenses	$50,672	$52,500
Shareholders' equity		
Common stock	528,588	524,982
Foreign currency translation adjustment	(484,283)	(233,631)
Additional paid in capital	93,746,569	93,516,080
Retained earnings (accumulated deficit)	(10,501,074)	8,254,895
Total shareholders' equity	83,289,800	102,062,326
Total liabilities and shareholders' equity	$83,340,372	$102,114,826

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

SCHEDULE I

RCM TECHNOLOGIES, INC. (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENT OF OPERATIONS

Years Ended December 31, 2001 and 2000, Two Months Ended December 31, 1999 and Year Ended October 31, 1999

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Operating expenses				
Administrative	$807,699	$ 534,662	$ 9,044	$ 244,660
Operating loss	(807,699)	(534,662)	(9,044)	(244,660)
Management fee income	807,699	534,662	9,044	244,660
Income before income in subsidiaries				
Equity in (shares in) earnings (loss) in subsidiaries	(18,755,969)	(21,896,386)	2,050,993	14,948,248
Net (loss) income	($18,755,969)	($21,896,386)	$2,050,993	$14,948,248

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

SCHEDULE I
RCM TECHNOLOGIES, INC. (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENT OF CASH FLOWS

Years Ended December 31, 2001 and 2000, Two Months Ended December 31, 1999 and Year Ended October 31, 1999

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Cash flows from operating activities:				
Net income (loss)	($18,755,969)	($21,896,386)	$2,050,993	$14,948,248
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Share in deficiency (equity in) in assets of subsidiaries	18,755,969	21,896,386	(2,050,993)	(14,948,248)
Changes in operating assets and liabilities:				
Prepaid expenses and other assets	59,470	(56,971)	3,710	686
Accounts payable and accrued expenses	(1,828)	(61,568)	50,072	46,234
	18,813,611	21,777,847	(1,997,211)	(14,901,328)
Net cash provided by (used in) operating activities	57,642	(118,539)	53,782	46,920
Cash flows from investing activities:				
Decrease in deposits	5,695			
Decrease (increase) in long-term receivables from subsidiaries	(46,780)	247,605	(89,079)	(430,103)
Net cash provided by (used in) investing Activities	(41,085)	247,605	(89,079)	(430,103)
Cash flows from financing activities:				
Employee stock purchase plan	234,095			
Exercise of stock options		42,951		478,025
Net cash provided by financing activities	234,095	42,951		478,025
Effect of exchange rate changes on cash and cash equivalents	(250,652)	(180,867)	43,466	(96,230)
Net increase (decrease) in cash and equivalents		(8,850)	8,169	(1,388)
Cash and equivalents at beginning of year		8,850	681	2,069
Cash and equivalents at end of year	$	$	$8,850	$ 681

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

SCHEDULE II

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS AND

RESERVES Years Ended December 31, 2001 and 2000, Two Months Ended December 31, 1999 and Year Ended October 31, 1999

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deduction	Balance at End of Period
Year Ended December 31, 2001					
Allowance for doubtful accounts on trade receivables	$1,875,000	$989,000		$1,069,000	$1,795,000
Year Ended December 31, 2000					
Allowance for doubtful accounts on trade receivables	$1,014,000	$1,101,000		$240,000	$1,875,000
Two Months Ended December 31, 1999					
Allowance for doubtful accounts on trade receivables	$1,002,000	$53,000		$41,000	$1,014,000
Year Ended October 31, 1999					
Allowance for doubtful accounts on trade receivables	$486,000	$986,000		$470,000	$1,002,000

EXHIBIT INDEX

(10)(j) Amended Loan and Security Agreement dated October 10, 2001 between RCM Technologies, Inc. and all of its Subsidiaries and Mellon Bank, N.A. as Agent.

(11) Computation of Earnings Per Share.

(21) Subsidiaries.

(23) Consent of Grant Thornton, LLP.

EXHIBIT 11

COMPUTATION OF EARNINGS (LOSS) PER COMMON

SHARE Years Ended December 31, 2001 and 2000, Two Months Ended December 31, 1999 and Year Ended October 31, 1999

	Year Ended December 31, 2001	Year Ended December 31, 2000	Two Months Ended December 31, 1999	Year Ended October 31, 1999
Diluted earnings				
Net income (loss) applicable to common stock	($18,755,969)	($21,896,386)	$2,050,993	$14,948,248
Shares				
Weighted average number of common shares outstanding	10,519,701	10,499,305	10,496,225	10,484,764
Common stock equivalents			455,222	457,382
Total	10,519,701	10,499,305	10,951,447	10,942,146
Diluted earnings (loss) per common share	($1.78)	($2.09)	$.19	$1.37
Basic				
Net income (loss) applicable to common stock	($18,755,969)	($21,896,386)	$2,050,993	$14,948,248
Shares				
Weighted average number of common shares outstanding	10,519,701	10,499,305	10,496,225	10,484,764
Basic earnings (loss) per common share	($1.78)	($2.09)	$.20	$1.43

EXHIBIT 21

SUBSIDIARIES

Business Support Group of Michigan, Inc. Cataract, Inc.
Programming Alternatives of Minnesota, Inc. RCMT Delaware, Inc.
RCM Technologies (USA), Inc.
Software Analysis & Management, Inc.

EXHIBIT 23

Consent of Independent Certified Public Accountants

Board of Directors
RCM Technologies, Inc.

We have issued our report dated February 8, 2002 accompanying the consolidated financial statements and schedules included in the Annual Report of RCM Technologes, Inc. and Subsidiaries on Form 10-K for the year ended December 31, 2001. We hereby consent to the incorporation by reference of said report in the Registration Statements of RCM Technologies, Inc. on Forms S-8 (File No. 33-12405, effective March 24, 1987, File No. 33-12406, effective March 24, 1987, File No. 33-61306, effective April 21, 1993, File No. 33-80590, effective June 22, 1994, 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
February 8, 2002

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SIXTH AMENDMENT AND MODIFICATION TO

LOAN AND SECURITY AGREEMENT

by and between

MELLON BANK, N.A., as Agent
AND
RCM TECHNOLOGIES, INC. and ALL OF ITS SUBSIDIARIES, as Borrower

Dated: As of October 10, 2001

SIXTH AMENDMENT AND MODIFICATION TO LOAN AND SECURITY AGREEMENT

This SIXTH AMENDMENT AND MODIFICATION TO LOAN AND SECURITY AGREEMENT ("Amendment") is dated as of October 10, 2001, by and between RCM TECHNOLOGIES, INC. ("RCM"), and ALL OF ITS SUBSIDIARIES (collectively referred to as "Borrower") and MELLON BANK, N.A., a national banking association, in its capacity as agent ("Agent") and MELLON BANK, N.A. ("Mellon"), MELLON BANK, N.
A., CANADA BRANCH, SUNTRUST BANK, ATLANTA, BANK OF AMERICA, N.A., FLEET NATIONAL BANK AND FIRST UNION NATIONAL BANK (as successor by assignment from ALLFIRST BANK), in their capacity as lenders (collectively referred to as "Lender").

BACKGROUND

A. Pursuant to the terms of a certain Loan and Security Agreement dated August 19, 1998, between Borrower and Lender as same has been amended ("Loan Agreement"), Lender made available to Borrower a revolving line of credit in the aggregate amount of $75,000,000.00 (the "Revolving Credit").

B. The Revolving Credit is evidenced by certain Revolving Credit Notes dated August 19, 1998, from Borrower to Lender in the aggregate amount of $75,000,000.00 ("Revolving Credit Notes").

C. Borrower has requested that Lender modify certain covenants contained in the Loan Agreement, and Lender has agreed to modify those certain covenants subject to the terms and conditions of this Amendment.

All capitalized terms used herein without further definition shall have the respective meaning set forth in the Loan Agreement and all other Loan Documents.

NOW, THEREFORE, with the foregoing Background incorporated by reference and intending to be legally bound hereby, the parties agree as follows:

1. Loan Agreement. The following amendments and modifications shall be made to the Loan Agreement and shall be effective upon execution hereof:

a. Certain definitions contained in Section 1. 1 of the Loan Agreement shall be amended and/or added as follows:

(1) EBITDA shall be deleted in its entirety and replaced as follows:

EBITDA - The sum of (i) Net Income before interest, taxes, depreciation and amortization, (ii) Additional Net Restructuring Charges (hereinafter defined), and (iii) other non-cash charges approved by Majority Lenders which approval will not be unreasonably withheld. (In no event shall any charge related to

goodwill taken by Borrower after December 31, 2001 be considered as an adjustment to EBITDA).

(2) Net Worth shall be deleted in its entirety and replaced as follows:

TangibleNet Worth - The amount by which the total assets of the Borrower exceeds all Liabilities of the Borrower. (For purposes of this calculation, the aggregate amount of any intangible assets of the Borrower including without limitation, goodwill, franchises, licenses, patents, trademarks, trade names, copyrights, service marks and brand names, shall be subtracted from the Borrower's total assets).

(3)Minimum Net Worth shall be deleted in its entirety and replaced as follows:

Minimum Tangible Net Worth - RCM's consolidated Tangible Net Worth shall be (i) $4,000,000.00 as of June 30, 2001, plus (ii) seventy-five percent (75%) of quarterly Net Income thereafter (determined without taking the Additional Net Restructuring Charge into account and with no credit for losses) (the "Net Income Component"), plus (iii) one hundred percent (100%) of the Income Tax Benefit (hereinafter defined), less (iv) the sum of (A) the Existing Additional Deferred Consideration Payments (hereinafter defined) paid on or after July 1, 2001, plus (B) the New Acquisition Consideration Payments (hereinafter defined) paid on or after July 1, 2001, provided that the reductions pursuant to clauses (A) and (B) of clause (iv) shall not in the aggregate exceed the increase in Minimum Tangible Net Worth arising from the Net Income Component.

(4) Additional Net Restructuring Charge - A one time deduction of goodwill to be taken by RCM during its fiscal year ending December 31, 2001, up to an amount not to exceed $35,000,000.00.

(5) Income Tax Benefit - The net amount by which Borrower's Federal and State ------------------ income tax obligations are reduced as a result of the Borrower deducting all or a portion of the Additional Net Restructuring Charge on its Federal and State income tax returns for its taxable year ending December 31, 2001, and by giving effect to the net tax effect of any adjustments increasing or decreasing such deduction subsequent to its taxable year ending December 31, 2001.

(6) Existing Additional Deferred Consideration Payments - Deferred and/or contingent cash consideration paid by the Borrower on or before December 31, 2003 (or payable on or before December 31, 2003 and paid within 120 days of its due date), up to an amount not to exceed $12,000,000.00 in the aggregate, in connection with any Acquisition closed prior to July 1, 2001, including without limitation (i) fixed pre-set amounts paid as a result of the achievement of a defined level of earnings by the acquired business following the closing of such Acquisition, and (ii) additional amounts paid following closing which arise as a result of earnings achieved by the acquired business in excess of defined levels. (In no event shall payments made in consideration of consulting services, agreements-not-to-compete or similar arrangements be considered Existing Additional Deferred Consideration Payments).

(7) New Acquisition Consideration Payments. Cash consideration paid at closing and deferred and/or contingent consideration paid by the Borrower up to an amount not to exceed $3,000,000.00 in the aggregate, in connection with any Acquisition closed after July 1, 2001, including without limitation

(i) fixed pre-set amounts paid as a result of the achievement of a defined level of earnings by the acquired business following the closing of such Acquisition, and (ii) additional amounts paid following closing which arise as a result of earnings achieved by the acquired business in excess of defined levels. (In no event shall payments made in consideration of consulting services be considered New Acquisition Consideration Payments).

b. Section 6.9(d) of the Loan Agreement shall be amended and restated in its entirety as follows:

RCM shall maintain, on a consolidated basis, a Tangible Net Worth no less than the Minimum Tangible Net Worth.

c. Section 2.7 of the Loan Agreement shall be amended by adding the following sentence. The total cash consideration paid or owed by the Borrower in connection with all Acquisitions closed after July 1, 2001 during the term of this Agreement shall not exceed $3,000,000.00, in the aggregate. (For purposes of this Section 2.7, cash consideration paid or owed for consulting services, agreements not to compete or similar arrangements shall be considered paid or owed in connection with an Acquisition).

2. Affirmation of Collateral. Borrower covenants, confirms and agrees that as security for the repayment of the Obligations, Lender has, or is hereby granted and shall therefore have and continue to have, a continuing first priority lien on and security interest in all of the Collateral, all whether now existing or hereafter acquired, created or arising and all proceeds thereof, except to the extent otherwise provided in the Loan Agreement. Borrower acknowledges and agrees that nothing herein contained in any way impairs Lender's existing rights or priority in the Collateral.

3. Representations and Warranties. Borrower warrants and represents to Lender that:

a. Prior Representations. By execution of this Amendment, Borrower reconfirms that all warranties and representations made to Lender under the Loan Agreement and the other Loan Documents, as supplemented by the notes to Financial Statements included in the Borrower's Form 10K dated December 31, 2000 and the Borrower's Form 10Q dated June 30, 2001, are true and correct in all material respects as of the date hereof, all of which shall be deemed continuing until all of the Obligations to Lender are paid and satisfied in full.

b. Authorization. The execution and delivery by Borrower of this Amendment and the performance by Borrower of the transactions herein contemplated (i) are and will be within its powers and (ii) are not and will not be in contravention of any order of court or other agency of government, of law or of any indenture, agreement or undertaking to which Borrower is a party or by which the property of Borrower is bound, or be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or undertaking, or result in the imposition of any lien, charge or encumbrance of any nature on any of the properties of Borrower.

c. Valid, Binding and Enforceable. This Amendment and any other instrument, document or agreement executed and delivered in connection herewith, will be valid, binding and enforceable in accordance with their respective terms subject to bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and general equitable principles.

d.Costs. Upon execution hereof, Borrower shall pay all costs (including attorneys' feesof Lender) attendant to this Amendment.

4. Ratification of Loan Documents. This Amendment is hereby incorporated into and made a part of the Loan Agreement and all other Loan Documents respectively, the terms and provisions of which, except to the extent modified by this Amendment are each ratified and confirmed and continue unchanged in full force and effect. Borrower acknowledges and agrees that it has no defenses, set-offs, counterclaims or deductions of any nature with respect to its obligations to Lender. Any reference to the Loan Agreement and all other Loan Documents respectively in this or any other instrument, document or agreement related thereto or executed in connection therewith shall mean the Loan Agreement and all other Loan Documents respectively as amended by this Amendment. The Loan Agreement and this Amendment shall be construed as integrated and complementary of each other, and augmenting and not restricting Lender's powers, rights, remedies and security. If, after applying the foregoing, an inconsistency still exists, the provisions of this Amendment shall control.

5. Effectiveness Conditions. This Amendment shall become effective upon the full execution of this Amendment and the following:

a. Payment of the Lender's legal fees attendant to this Amendment;

b. Payment to Agent, on behalf of the Banks, the fees reflected on Schedule A hereto;

c. A Certificate of the Secretary or Assistant Secretary of the Borrower, dated the date hereof, including (i) resolutions duly adopted by the Borrower authorizing this Amendment, and (ii) evidence of the incumbency and signature of the officers executing the Amendment on the Borrower's behalf.

d. Any other documents reasonably required by Agent or Lenders.

6. Governing Law. This Amendment and all instruments, documents and agreements and the rights and obligations of the parties hereto and thereto shall be governed by and interpreted in accordance with the substantive laws of the Commonwealth of Pennsylvania.

7. Severability. The invalidity or unenforceability of any provision of this Amendment shall not affect the validity or enforceability of the remaining provisions.

8 . Modification. This Amendment may not be modified, amended or terminated except by an agreement in writing executed by the parties hereto.

IN WITNESS WHEREOF, the undersigned parties have executed this Agreement the day and year first above written.

BORROWER: RCM TECHNOLOGIES, INC.

By: ---

Name: --

Title: ---

CATARACT, INC.

By: ---

Name: --

Title: ---

RCM TECHNOLOGIES (USA), INC.

By:

Name:

Title:

PROGRAMMING ALTERNATIVES OF MINNESOTA, INC.

By:

Name:

Title:

NORTHERN TECHNICAL SERVICES, INC.

By:

Name:

Title:

GLOBAL TECHNOLOGY SOLUTIONS, INC.

By:

Name:

Title:

SOFTWARE ANALYSIS & MANAGEMENT, INC.

By:

Name:

Title:

PROCON, INC.

By:

Name:

Title:

RCMT DELAWARE, INC.

By:

Name:

Title:

RCM TECHNOLOGIES CANADA CORP.

By:____________________________

Name:_________________________

Title:_______________________

BUSINESS SUPPORT GROUP OF MICHIGAN, INC.

By:

Name:

Title:

SOLUTIONS THROUGH DATA-PROCESSING, INC.

By:

Name:

Title:

PINNACLE CONSULTING, INC.

By:

Name:

Title:

APPLICATION SOLUTIONS CORPORATION

By:

Name:

Title:

DISCOVERY CONSULTING SOLUTIONS, INC.

By:

Name:

Title:

MANAGEMENT SYSTEMS INTEGRATORS, INC.

By:

Name:

Title:

AGENT: MELLON BANK, N.A., as Agent

By:

Name:

Title:

LENDERS: MELLON BANK, N.A., as Lender

By:

Name:

Title:

MELLON BANK CANADA, as Lender

By:

Name:

Title:

SUNTRUST BANK, ATLANTA, as Lender

By:

Name:

Title:

WACHOVIA BANK (as successor by assignment from ALLFIRST BANK, as Lender

Name:

Title:

BANK OF AMERICA, N.A., as Lender

By:

Name:

Title:

FLEET NATIONAL BANK, as Lender

By:

Name:

Title:

SCHEDULE A

Lenders	FEE
Mellon Bank, N.A., Canada Branch	$ 1,250
Mellon Bank, N.A.	$23,750
Fleet National Bank	$21,875
Sun Trust Bank, Atlanta	$12,500
Bank of America, N.A.	$21,875
First Union National Bank	$12,500
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