UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934
[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from .... to ....
Commission file number 1-10245

RCM TECHNOLOGIES, INC.

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

2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613
Address of principal executive offices

Registrant's telephone number, including area code: (856) 486-1777

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

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES X NO__

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

Indicate by check mark if disclosure of delinquent filers pursuant to

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer X

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $49,645,000 based upon the closing price of $4.44 per share of the registrant's common stock on June 30, 2005 on The Nasdaq National Market. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from the figure is an affiliate or that any person whose holdings are included is not an affiliate and any such admission is hereby disclaimed. The information provided is included solely for record keeping purposes of the Securities and Exchange Commission.
The number of shares of registrant's common stock (par value $0.05 per share) outstanding as of March 21, 2006: 11,743,861.

Documents Incorporated by Reference Portions of the definitive proxy statement for the registrant's 2006 Annual Meeting of Stockholders (the "2006 Proxy Statement") are incorporated by reference into Items 10, 11, 12, 13 and 14 in Part III of this Annual Report on Form 10-K. If the 2006 Proxy Statement is not filed by May 1, 2006, an amendment to this annual report on Form 10-K setting forth this information will be duly filed with the Securities and Exchange Commission.

RCM TECHNOLOGIES, INC.

FORM 10-K

TABLE OF CONTENTS

Private Securities Litigation Reform Act Safe Harbor Statement

Certain statements included herein and in other reports and public filings made by RCM Technologies, Inc. ("RCM" or the "Company") are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These

forward-looking statements include, without limitation, statements regarding the adoption by businesses of new technology solutions; the use by businesses of outsourced solutions, such as those offered by the Company in connection with such adoption and the outcome of litigation (at both the trial and appellate levels) involving the Company. Readers are cautioned that such forward-looking statements, as well as others made by the Company, which may be identified by words such as "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "believe," and similar expressions, are only predictions and are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially from such statements. Such risks and uncertainties include, without limitation: (i) unemployment and general economic conditions affecting the provision of information technology and engineering services and solutions and the placement of temporary staffing personnel; (ii) the Company's ability to continue to attract, train and retain personnel qualified to meet the requirements of its clients; (iii) the Company's ability to identify appropriate acquisition candidates, complete such acquisitions and successfully integrate acquired businesses; (iv) uncertainties regarding pro forma financial information and the underlying assumptions relating to acquisitions and acquired businesses; (v) uncertainties regarding amounts of deferred consideration and earnout payments to become payable to former shareholders of acquired businesses; (vi) adverse effects on the market price of the Company's common stock due to the potential resale into the market of a significant amounts of common stock; (vii) the adverse effect a potential decrease in the trading price of the Company's common stock would have upon the Company's ability to acquire businesses through the issuance of its securities;
(viii) the Company's ability to obtain financing on satisfactory terms; (ix) the reliance of the Company upon the continued service of its executive officers;
(x) the Company's ability to remain competitive in the markets that it serves;
(xi) the Company's ability to maintain its unemployment insurance premiums and workers compensation premiums; (xii) the risk of claims being made against the Company associated with providing temporary staffing services; (xiii) the Company's ability to manage significant amounts of information and periodically expand and upgrade its information processing capabilities; (xiv) the Company's ability to remain in compliance with federal and state wage and hour laws and regulations; (xv) uncertainties in predictions as to the future need for the Company's services; (xvi) uncertainties relating to the allocation of costs and expenses to each of the Company's operating segments; (xvii) the costs of conducting and the outcome of litigation involving the Company, and (xviii) other economic, competitive and governmental factors affecting the Company's operations, markets, products and services. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publicly release the results of any revision of these forward-looking statements to reflect these trends or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

ITEM 1. BUSINESS

General

RCM is a premier provider of business and technology solutions designed to enhance and maximize the operational performance of its customers through the adaptation and deployment of advanced information technology and engineering services. RCM has been an innovative leader in the design, development, and delivery of these services to commercial and government sectors for more than 35 years. The Company provides a diversified and extensive range of service offerings and deliverables. The Company's Information Technology segment provides e-commerce, enterprise management, application lifecycle management, regulatory compliance solutions and selected vertical market specific offerings. RCM's Engineering segment provides engineering design, technical support and project management and implementation services. The Company's Commercial Services Segment provides health care contract professionals as well as clerical and light industrial temporary personnel. The Company serves clients in a variety of industries including those in the financial services, aerospace, healthcare, pharmaceutical, utility, technology, manufacturing, distribution and government sectors. The Company believes it offers a range of solutions that fosters long-term client relationships, affords cross-selling opportunities, and minimizes the Company's dependence on any single technology or industry sector. RCM sells and delivers its services through a network of 34 branch offices located in selected regions throughout North America.

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

During the year ended December 31, 2005, approximately 54.3% of RCM's total revenues were derived from Information Technology ("IT") services, 26.4% from engineering services, and the remaining 19.3% from commercial services. The Company has executed a regional strategy to better leverage its consulting services offerings.

The IT consulting services market enjoyed rapid growth and expansion through the 1990s leading up to the well documented Y2K peak demand period that lasted until early 2001. Demand for the Company's IT consulting services has yet to rebound to those levels. A decline in revenues and operating income of certain branch offices resulted in goodwill impairment charges for the fiscal years ended January 1, 2005 and December 28, 2002. Demand for the Company's IT services is significantly impacted by changes in the general level of economic activity, particularly any negative effect on technology spending. During periods of reduced economic activity, the Company may also be subject to increased competition and pricing pressure in its market. As a result, continued periods of reduced economic activity could have a material adverse impact on our business and results of information technology operations.

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 align information technologies with new business objectives is critical.

Although many companies have recognized the importance of optimizing IT systems and products to support business processes in order to compete in today's challenging environment, the process of designing, developing and implementing IT solutions has become increasingly complex. As a result, many companies have elected to defer, redefine or cancel investments in new systems, software and solutions, and are focused on making more effective use of previous technological investments. The Company's clients are faced with some of these same decisions. This is resulting in greater uncertainty and cautiousness in pursuing new technology projects, which had previously been considered a competitive imperative. Consequently, many clients have trimmed or redeployed their permanent workforce, thereby reducing the demand for consulting services. This has had a direct negative impact on the Company's revenues and earnings.

Industry Overview (Continued)

The current economic environment has further challenged many companies to evaluate investment or funding choices and 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 technology developments, which often render existing equipment and internal skills obsolete. At the same time, external economic factors have caused many organizations to focus on core competencies and trim workforces in the IT management area. Accordingly, these organizations often lack the quantity, quality, and variety of IT skills necessary to design and support IT solutions. IT managers are charged with supporting increasingly complex systems and applications of significant strategic value, while working under budgetary, personnel and expertise constraints within their own organizations.

The Company believes the strongest demand for IT services is among middle-market companies, which typically lack the time and technical resources to satisfy all of their IT needs internally. These companies typically require sophisticated, experienced IT assistance to achieve their business objectives and often rely on IT service providers to help implement and manage their systems. However, many middle-market companies rely on multiple providers for their IT needs. Generally, the Company believes that this reliance on multiple providers results from the fact that larger IT service providers do not target these companies, while smaller IT service providers 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 influence the quality and compatibility of IT solutions. RCM is structured to provide middle-market companies an objective, single source for their IT needs.

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

In addition, over the past two years, a shortage of nurses and other health care professionals in the United States has led to increases in business activity for health care service companies. Due in part to an aging population and improved medical technology, the demand for selected health care professionals is expected to continue over the next several years.

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

Business Strategy

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

Growth Strategy

Full Life Cycle Solution

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

Growth Strategy (Continued)

Full Life Cycle Solution (Continued)

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

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

Promote Internal Growth

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

RCM provides a company-wide training program in which sales managers and professionals receive advanced sales training. The purpose of the training, which is a multi-semester program, is to enhance 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 vertical markets in which RCM has assembled the greatest work experience. RCM's consultants continue to acquire project experience that offers differentiated awareness of the business challenges that clients in that industry are facing. This alignment also facilitates and creates additional cross-selling opportunities. The Company believes this strategy will lead to greater account penetration and enhanced client relationships.

Operational strategies contributing to RCM's internal productivity include the delineation of certain new solutions practice areas in markets where its clients had historically known the Company as a contract service provider. The formation of these practice areas will facilitate the flow of project opportunities and the delivery of project-based solutions. RCM's recently established Recruiting Center of Excellence facilitates the recruitment of large numbers of candidates across the U.S. and their placement through regional offices, providing a more effective and efficient means of attracting highly qualified professionals to RCM.

Continue Selective Strategic Acquisitions

The industry in which the Company operates continues to be highly fragmented, and the Company plans to continue to selectively assess opportunities to make strategic acquisitions as such opportunities are presented to the Company. The Company's past acquisition strategy was designed to broaden the scope of services and technical competencies and grow its full life cycle solution capabilities, and the Company would continue to consider such goals in any future acquisitions. In considering acquisitions, the Company focuses principally on companies with (i) technologies or market segments RCM has targeted for strategic value enhancement, (ii) margins that will not dilute the margins now being delivered, (iii) experienced management personnel, (iv) substantial growth prospects and (v) sellers who desire to join the Company's management team. To retain and provide incentives for management of its acquired companies, the Company has generally structured a significant portion of the acquisition price in the form of multi-tiered consideration based on growth of operating profitability of the acquired company over a two - to three-year period.

Operating Strategy (Continued)

Foster a Decentralized Entrepreneurial Environment

A key element of the Company's operating strategy is to foster a decentralized, entrepreneurial environment for its employees. The Company fosters this environment by continuing to build on local market knowledge of each branch's reputation, customer relationships, and expertise. The Company believes an entrepreneurial business atmosphere allows its branch offices to 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. This industry-centric strategy is designed to allow RCM to further expand its relationships with clients in RCM's targeted sectors.

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

Attract and Retain Highly Qualified Consultants and Technical Resources

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

Centralize Administrative Functions

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

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

Information Technology

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

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

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

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

As of December 31, 2005, the Company had assigned approximately 658 information technology employees and consultants to its customers.

Engineering

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

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

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

Engineering (Continued)

As of December 31, 2005, the Company had assigned approximately 426 engineering and technical employees and consultants to its customers.

Commercial

The Company's Commercial Services Segment consists of specialty health care and general support services.

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

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

As of December 31, 2005, the Company had assigned approximately 1,178 commercial services personnel to its customers.

Branch Offices

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

REGION	NUMBER OF OFFICES	SERVICES PROVIDED(1)
EAST		
Connecticut	2	E
Maryland	1	IT
Massachusetts	1	IT
New Jersey	2	IT, E
New York	3	IT, E, C
Pennsylvania	1	C
	10	
GREAT LAKES		
Michigan	4	IT, E
Minnesota	1	IT
Missouri	1	IT
Wisconsin	3	IT, E
	9	
CENTRAL		
Texas	2	IT
	2	
WEST		
Northern California	1	IT
Southern California	7	IT, C
	8	
PUERTO RICO	1	IT
CANADA	4	IT, E

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

Branch offices are primarily located in regions that the Company believes have strong growth prospects for 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 is domiciled in the United States and its segments operate in the United States and Canada. Revenues and Definite-Long Lived Assets by geographic area for the year ended and as of December 31, 2005 are as follows (in thousands):

	Revenues	Goodwill	Definite Long-Lived Assets
United States	$165,808	$32,863	$809
Canada	14,810	$4,797	
	$180,618	$37,660	$809

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

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

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

Sales and Marketing

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

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

Sales and Marketing (Continued)

The Company's larger representative customers include 3M, ADP, Ameriquest, BancTec, Inc., Bristol Myers Squibb, Bruce Power L.P, Countrywide Home Loans, Entergy, FlightSafety International, MSC Industrial Supply, Ontario Power Generation, Schering Plough, United Technologies, and Wells Fargo. The Company serves Fortune 1000 companies and many middle market clients. The Company's relationships with these customers are typically formed at the local or regional level or, when appropriate, at the corporate level for national accounts.

During 2005, the Company's largest customer accounted for 8.8% of the Company's revenues. The Company's five and ten largest customers accounted for approximately 26.3% and 35.6%, respectively, of the Company's revenues for 2005. Recruiting and Training

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

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

Information Systems

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

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

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

The company is also reviewing proposals for a time and attendance system, which will augment the ERP application by catering to the needs of its diverse business offerings and distributed workforce. Anticipated rollout for this system is expected by mid 2006.

Other Information

Safeguards - Business, Disaster and Contingency Planning

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

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

Additionally, RCM has contracted and brokered strategic relationships with third-party vendors to meet its recovery objectives in the event of a system disruption. For example, comprehensive service level agreements provided by AT&T for RCM's managed firewall, VPN and data circuits guarantees minimal outages as well as network redundancy and scalability. The Disaster Recovery site, located at the corporate office in Pennsauken, provides WAN, ERP and messaging redundancy services should the primary data center facility at Parsippany become inoperable.

The company's ability to protect its data assets against damage from fire, power loss, telecommunications failures, and facility violations is critical. The deployment of virus, spam, and patch management controls extends from the email gateway to all desktops and is centrally monitored and managed. In addition to the standard virus and malware controls, an Intrusion Protection System (IPS) monitors and alerts on changes in network traffic patterns as well as known hostile signatures.

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

Competition

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

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

Seasonality

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

Employees

As of December 31, 2005, the Company employed an administrative staff of approximately 250 people, including certified IT specialists and licensed engineers who, from time to time, participate in IT and engineering design projects undertaken by the Company. As of December 31, 2005, there were approximately 658 information technology and 426 engineering and technical employees and consultants assigned by the Company to work on client projects for various periods. As of December 31, 2005, there were approximately 1,178 commercial services employees and consultants. None of the Company's employees is represented by a collective bargaining agreement. The Company considers its relationship with its employees to be good.

ITEM 1A. RISK FACTORS

The Company's business involves a number of risks, some of which are beyond its control. The risk and uncertainties described below are not the only ones the Company faces. Management believes that the most significant of these risks and uncertainties are as follows:

Economic Trends

The Company's growth and earnings prospects are influenced by broad economic trends. The pace of customer capital spending programs, new product launches and similar activities have a direct impact on the need for temporary and permanent employees. The Company believes that its fiscal discipline and strategic focus on targeted vertical markets provides some insulation from adverse trends. However, further declines in the economy would adversely affect the Company's operating performance and could result in the need for future cost reductions or changes in strategy.
Government Regulations

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

Highly Competitive Business

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

Dependence Upon Personnel

The Company's operations depend on the continued efforts of its officers and other executive management. The loss of key officers and members of executive management may cause a significant disruption to the Company's business. RCM also depends on the performance and productivity of its local managers and field personnel. The Company's ability to attract and retain new business is significantly affected by local relationships and the quality of service rendered. The loss of key managers and field personnel may also jeopardize existing client relationships with businesses that continue to use our services based upon past relationships with local managers and field personnel, which could cause future revenues to decline in that event.

Workers' Compensation and Employee Medical Insurance

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

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

The Company may be subject to possible claims by our clients related to errors and omissions, misuse of proprietary information, discrimination and harassment, theft and other criminal activity, malpractice, and other claims stemming from the improper activities or alleged activities of our temporary professionals. There can be no assurance that our current liability insurance coverage will be adequate or will continue to be available in sufficient amounts to cover damages or other costs associated with such claims. Claims raised by clients stemming from the improper actions of our temporary professionals, even if without merit, could cause us to incur significant expense associated with the costs or damages related to such claims. Further, such claims by clients could damage our business reputation and result in the discontinuation of client relationships.

Integration of Acquisitions

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

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

The Company recorded a write down of $2.2 million in 2004 related to impairment of goodwill. As of December 31, 2005, we had $38.5 million of goodwill and intangible assets on our balance sheet, which represented 36.0% of our total assets. This amount primarily represents the remaining excess of the total purchase price of our acquisitions over the fair value of the net assets acquired. If we are required to further write down goodwill, the related charge could materially reduce reported net income or result in a net loss for the period in which the write down occurs.

Foreign Currency Fluctuations and Changes in Exchange Rates

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

Litigation

The Company is involved in certain litigation as described in Note 16 to the financials statements (Legal Proceedings). An adverse outcome to the litigation could have an adverse impact on the financial position and results of operations of the Company.

Data Center Capacity and Telecommunication Links

Uninterruptible Power Supply (UPS), fire suppression and environmental control systems, protect RCM's datacenter. All systems are monitored on a 24/7 basis with alerting capabilities via voice or email. The telecommunications architecture at RCM utilizes a managed solution from AT&T, which encompasses redundancy, with the incorporation of shadow circuits and backup devices, and diversity, with circuits provisioned from different geographical locations and high availability failover VPN tunnels across locations.

Data Center Capacity and Telecommunication Links (Continued)

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

Access to Company Information

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company provides specialty professional consulting services, principally performed at various client locations, through 34 administrative and sales offices in 13 states and territories in the United States, Puerto Rico, and Canada. The Company's 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 10,200 square feet and are leased at a rate of $13.75 per square foot per annum for terms ending on December 31, 2006 and January 31, 2011.

The Company's operational office is located at 20 Waterview Boulevard, 4th Floor, Parsippany, NJ 07054-1271. These premises consist of approximately 28,000 square feet and are leased at a rate of $27.50 per square foot per annum for a term ending on June 30, 2012.

ITEM 3. LEGAL PROCEEDINGS

See discussion of Legal Proceedings in Note 16 to the consolidated financial statements included in Item 8 of this Report.

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

There were no matters submitted to a vote of security holders during the quarter ended December 31, 2005.

PART II

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

Shares of the Company's common stock are traded on The Nasdaq 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, 2005 as reported by The Nasdaq National Market:

	Common Stock	
Fiscal 2004	High	Low
First Quarter	$8.06	$6.48
Second Quarter	7.69	3.89
Third Quarter	6.73	3.95
Fourth Quarter	$5.15	$4.00
Fiscal 2005		
First Quarter	$5.39	$4.26
Second Quarter	5.00	3.96
Third Quarter	7.99	4.20
Fourth Quarter	$7.47	$4.86

Holders

As of March 1, 2006, the approximate number of holders of record of the Company's Common Stock was 560. Based upon the requests for proxy information in connection with the Company's most recent Annual Meeting of Stockholders, the Company believes the number of beneficial owners of its Common Stock is approximately 1,956.

Dividends

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

Unregistered Sales of Equity Securities

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

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				
	December 31,	January 1,	December 27,	December 28,	December 29,
	2005	2005(2)	2003	2002	2001
Income Statement					
Revenues	$180,618,164	$169,277,490	$206,605,188	$186,650,616	$234,739,066
Gross profit	42,682,532	40,973,845	44,594,686	46,664,861	62,575,740
Income before the charges listed below	3,593,086	4,412,205	6,812,107	8,005,135	9,407,072
Amortization, net of tax	(57,000)	(41,000)	(18,000)	(12,000)	(5,385,000)
Goodwill impairment, net of tax		(2,164,338)		(24,748,000)	(22,758,000)
Unusual items, net of tax				(6,414,000)	
Equity compensation, net of tax			(4,014,954)		
Income (loss) from continuing operations	3,536,086	2,206,867	2,779,153	(23,168,865)	(18,735,928)
Loss from discontinued operations				(967,065)	(20,041)
Net income (loss)	$3,536,086	$2,206,867	$2,779,153	($24,135,930)	($18,755,969)
Earnings Per Share (1)					
Income (loss) from continuing operations - Diluted	$.30	$.19	$.26	($2.19)	($1.78)
Loss from discontinued operations				(.09)	
Net income (loss):					
Basic	$.31	$.19	$.26	($2.28)	($1.78)
Diluted	$.30	$.19	$.26	($2.28)	($1.78)

	December 31,	January 1,	December 27,	December 28,	December 29,
	2005	2005 (2)	2003	2002	2001
Balance Sheet					
Working capital	$33,032,366	$29,544,955	$23,881,579	$16,516,062	$10,977,131
Total assets	106,772,702	99,388,087	99,703,589	88,439,784	131,155,945
Long term liabilities					
Total liabilities	31,084,077	29,443,051	32,533,493	29,193,630	47,866,145
Stockholders' equity	$75,688,625	$69,945,036	$67,170,096	$59,246,154	$83,289,800

(1) Shares used in computing earnings per share:

Basic	11,456,757	11,325,626	10,716,179	10,585,503	10,519,701
Diluted	11,731,591	11,679,811	10,896,305	10,585,503	10,519,701

((2)) Year ended January 1, 2005 had fifty-three weeks and all other years had fifty-two weeks.

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

Overview

RCM participates in a market that is cyclical in nature and extremely sensitive to economic changes. As a result, the impact of economic changes on revenues and operations can be volatile.

During the latter portion of the 1990s' RCM made significant personnel and infrastructure investments to support a high-growth strategy through broad-based market penetration and acquisitions. The dramatic slowdown in the United States economy, which began during 2000, prompted management to reconsider its strategy. In that regard, the Company initiated reductions in its staff personnel and office requirements in response to the decrease in sales volume in the year 2001. Since that time, management has continued to monitor its operating cost structure in order to maintain a cost benefit relationship with revenues. In addition, there has been an ongoing focus on working capital management and cash flows. These efforts have resulted in an improvement in accounts receivable collections, debt reduction and improved cash flows. Furthermore, the Company has improved discipline in its marketing and sales strategies by providing a more cohesive and relevant marketing and sales approach to new and existing customers and now focuses on growth in targeted vertical markets and in service offerings providing greater revenue opportunities.

The Company believes that most companies have recognized the importance of the Internet and information management technologies to compete in today's business climate. However, the uncertain economic environment has curtailed many companies' motivation for rapid adoption of many technological enhancements. The process of designing, developing and implementing software solutions has become increasingly complex. The Company believes that many 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 spending on many emerging new solutions, which management formerly had anticipated.

Nonetheless, the Company continues to believe that 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 a demand for outsourcing. The Company believes that its current clients and prospective future clients are continuing to evaluate the potential for outsourcing business critical applications and entire business functions.

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

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

Overview (Continued)

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

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

Revenue Recognition

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

Project Services

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

Revenue Recognition (Continued)

Staffing Services

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

Permanent Placement Services

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

Accounts Receivable

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

Goodwill and Intangibles

The Company follows SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Accordingly, the Company evaluates the carrying value and recoverability of its goodwill by evaluating the fair market value of the reporting units within which goodwill resides. The process of estimating fair value, in part, relies on the use of forecasts to estimate future cash flows expected from a reporting unit as well as the use of discounted cash flows and market multiples in determining fair market value. In order to estimate future cash flows, management must make subjective judgments based on reasonable and supportable assumptions and projections. The periods for estimating future cash flows are uncertain, which increases the risk that actual future results could significantly deviate from estimates. Changes in future market conditions, the Company's strategy, or other factors could have an effect upon the future values of these reporting units, which could result in future impairment charges.

Accounting for Stock Options

The Company has used stock options to attract, retain, and reward employees for long-term service. Accounting principles generally accepted in the United States allow alternative methods of accounting for these awards. The Company has chosen to account for its stock plans (including stock option plans) under Accounting Principle Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB Opinion 25"). Since option exercise prices reflect the market value per share of the Company's stock upon grant, no compensation expense related to stock options is reflected in the Company's income statement. SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") prescribes the alternative method of accounting for stock options. Had SFAS 123 been adopted, the Company would have recorded additional costs of approximately $692,000, $321,000 and $500,000 for the years ended December 31, 2005, January 1, 2005 and December 27, 2003, respectively. The pro forma compensation cost was calculated using the Black-Scholes Options Pricing Model, which includes estimates, based on assumptions for the risk-free interest rate, life of options and stock price volatility and is based upon freely traded options. Changes in the underlying assumptions could affect the pro forma compensation cost.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (revised 2004), Share-Based Payment ("SFAS 123R"), which is a revision of SFAS No. 123. SFAS 123R supersedes APB Opinion No. 25, and amends FASB Statement No. 95, "Statement of Cash Flows". The approach to quantifying stock-based compensation expense in SFAS 123R is similar to SFAS No. 123. However, the revised statement requires all share-based payments to employees, including grants of employee stock options, to be recognized as an expense in the Consolidated Statements of Income based on their fair values as they are earned by the employees under the vesting terms. Pro forma disclosure of stock-based compensation expense, as is the Company's practice under SFAS No. 123, will not be permitted after 2005, since SFAS 123R must be adopted no later than the first interim or annual period beginning after December 15, 2005. The Company has adopted the "modified prospective" method of adoption of SFAS 123R effective as of January 1, 2006, whereby earnings for prior periods will not be restated as though stock based compensation had been expensed. Although the Company has not yet fully evaluated the effect of SFAS 123R on its results of operations, the Company believes that the impact on the Consolidated Statements of Income will be similar to the pro forma impact shown above for the fifty-two weeks ended December 31, 2005.

Accounting for Income Taxes

In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance, and estimates of future earnings. As of December 31, 2005, the Company had total net deferred tax assets of $4.0 million. This includes $3.3 million for a reserve for litigation charges. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, additional valuation allowances may be required.

Forward-looking Information

The Company's growth prospects are influenced by broad economic trends. The pace of customer capital spending programs, new product launches and similar activities have a direct impact on the need for consulting and engineering services as well as temporary and permanent employees. Should the U.S. economy decline, the Company's operating performance could be adversely impacted. The Company believes that its fiscal discipline, strategic focus on targeted vertical markets and diversification of service offerings provides some insulation from adverse trends. However, further declines in the economy could result in the need for future cost reductions or changes in strategy.

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

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

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

	Year Ended December 31, 2005		Year Ended January 1, 2005		Year Ended December 27, 2003	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues	$180,618	100.0	$169,277	100.0	$206,605	100.0
Cost of services	137,935	76.4	128,303	75.8	162,010	78.4
Gross profit	42,683	23.6	40,974	24.2	44,595	21.6
Selling, general and administrative	35,461	19.6	34,330	20.3	32,558	15.8
Depreciation and amortization	1,206	.7	1,219	.7	1,223	.6
Compensation expense for stock option tender offer					6,692	3.2
Impairment of goodwill			2,164	1.3		
Other expense, net	209	.1	450	.3	182	.1
Income before income taxes	5,806	3.2	2,811	1.6	3,940	1.9
Income taxes	2,270	1.2	604	.3	1,161	.6
Net income	$3,536	2.0	$2,207	1.3	$2,779	1.3
Earnings per share						
Basic:	$.31		$.19		$.26	
Diluted:	$.30		$.19		$.26	

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.

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. A 53-week year occurs periodically. The fiscal year ended 2004 is a 53-week reporting year. Therefore, the reporting period ended January 1, 2005 consisted of fifty-three weeks as compared to the two other years, which ended on December 31, 2005 and December 27, 2003, consisting of fifty-two weeks. Unless specifically noted otherwise, the following discussion of changes between comparable periods does not reflect the fact that the fiscal year ended 2004 contains an additional one week.

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

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

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

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

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

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

Other Expense. Other expense consisted of interest expense, net of interest income and gains and losses on foreign currency transactions. For the year ended December 31, 2005, actual interest expense of $568,000 was offset by $347,000 of interest income, which was principally earned from short-term money market deposits. Interest expense, net, decreased $253,000 for the year ended December 31, 2005 as compared to the comparable prior year period. This decrease was primarily due to a reduction of debt, which was partially offset by an increase in the effective interest rate on the line of credit for the year ended December 31, 2005 as compared to the comparable prior year period. Gains on foreign currency transactions decreased $13,000 because of the stabilization of the Canadian Dollar as compared to the U. S. Dollar during the year ended December 31, 2005, as compared to the strengthening of the Canadian Dollar in relation to the U.S. Dollar in the comparable prior year period.

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

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

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

Segment Discussion (See Footnote 15)

Information Technology

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

Engineering

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

Commercial

Commercial revenues of $34.9 million in 2005 represented an increase of $9.7 million, or 38.6% compared to 2004. The increase in revenues for the Commercial segment was attributable to improvement in economic activity within this segment. The Commercial segment EBITDA was $1.1 million, or 15.6% of the overall EBITDA, for 2005 as compared to a loss of $428,000, for 2004.

Year Ended January 1, 2005 Compared to Year Ended December 27, 2003

Revenues. Revenues decreased 18.1%, or $37.3 million, for the year ended January 1, 2005 as compared to the same period in the prior year (the "comparable prior year period"). The revenue decreased $8.0 million in the Information Technology segment, decreased $35.5 million in the Engineering segment, and increased $6.2 million in the Commercial segment. Management attributes the overall decrease to the conclusion in accordance with the terms of two major contracts in the IT and Engineering segments in early 2004 as well as a softening of demand for information technology services, offshore competition, and widespread pricing pressures. The aggregate revenues from the two major contracts in fiscal 2003 were $31.9 million.

Cost of Services. Cost of services decreased 20.8%, or $33.7 million, for the year ended January 1, 2005 as compared to the comparable prior year period. This decrease was primarily due to the decrease in costs associated with the conclusion of two major contracts in early 2004. Cost of services as a percentage of revenues decreased to 75.8% for the year ended January 1, 2005 from 78.4% for the comparable prior year period. This decrease was primarily attributable to a decrease in subcontracted labor related to low margin revenues in the Engineering segment. This subcontracted labor was part of a major contract, which concluded in early 2004.

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses increased 5.4%, or $1.8 million, for the year ended January 1, 2005 as compared to the comparable prior year period. This increase was primarily attributable to increased healthcare costs, statutory payroll taxes and one additional week of SGA payroll. SGA expenses as a percentage of revenues were 20.3% for the year ended January 1, 2005 as compared to 15.8% for the comparable prior year period. This increase was primarily attributable to a decline in revenue of $37.3 million or 18.1%.

Year Ended January 1, 2005 Compared to Year Ended December 27, 2003 (Continued)

Depreciation and Amortization. Depreciation and amortization decreased 0.3%, or $4,000, for 2004 as compared to 2003.

Other Expense. Other expense consisted of interest expense, net of interest income and gains and losses on foreign currency transactions. For the year ended January 1, 2005, actual interest expense of $536,000 was offset by $61,700 of interest income, which was principally earned from short-term money market deposits. Interest expense, net, increased $160,000 for the year ended January 1, 2005 as compared to the comparable prior year period. This increase was primarily due to an increase in the effective interest rate on the line of credit for the year ended January 1, 2005 as compared to the comparable prior year period. Gains on foreign currency transactions decreased $107,000 because of the stabilization of the Canadian Dollar during the year ended January 1, 2005 as compared to the strengthening of the Canadian Dollar in relation to the U.S. Dollar in the comparable prior year period.

Income Tax. Income tax expense decreased 47.9%, or $556,000, for the year ended January 1, 2005 as compared to the comparable prior year period. The effective tax rate was 21.5% for the year ended January 1, 2005 as compared to 29.4% for the comparable prior year period. These decreases were attributable to a nondeductible goodwill impairment charge of $2.2 million in fiscal year ended January 1, 2005, which was offset by a change in the valuation allowance. The effective tax rate net of the goodwill charge and change in valuation allowance is 27.1% for the year ended January 1, 2005 as compared to 29.4% for the comparable prior year. This decrease was attributable to a decrease in the Canadian income tax rate.

Goodwill Impairment. SFAS 142 requires the Company to perform a goodwill impairment test on at least an annual basis. For purposes of its 2004 and 2003 annual impairment testing, the Company determined the fair value of its reporting units using a discounted cash flow method and relative market multiples for comparable businesses, as of November 30, 2004 and 2003, respectively. The analysis revealed that goodwill, amounting to approximately $2.2 million had been impaired for the fiscal year ended January 1, 2005 and therefore, would not be recoverable through future profitable operations. The results of the 2003 impairment testing indicated no impairment to goodwill. There can be no assurance that future goodwill impairment tests will not result in further impairment charges.

Segment Discussion (See Footnote 14)

Information Technology

IT revenues of $92.9 million in 2004 decreased $8.0 million, or 7.9%, compared to 2003. The decline was principally attributable to a softening of demand for information technology services, offshore competition, and widespread pricing pressures. EBITDA for the IT segment was $2.1 million, or 47.6% of the overall EBITDA for 2004 as compared to $7.3 million, or 136% of the overall EBITDA, for 2003.

Engineering

Engineering revenues of $51.2 million in 2004 decreased $35.5 million, or 41.0%, compared to 2003. The decrease in revenue was attributable to the conclusion of a major engineering contract in early 2004 on which RCM had accepted lower margins. The Engineering segment EBITDA was $2.8 million, or 63.1% of the overall EBITDA for 2004 as compared to $3.4 million, or 63.1% of the overall EBITDA, for 2003.

Year Ended January 1, 2005 Compared to Year Ended December 27, 2003 (Continued)

Commercial

Commercial revenues of $25.2 million in 2004 increased $6.2 million, or 32.4% compared to 2003. The increase in revenues for the Commercial segment was attributable to improvement in economic activity within this segment. The revenues in the Commercial segment increased as compared to the decrease in revenues in the IT and Engineering segments, which resulted in a larger allocation of corporate overhead burden to the Commercial segment as compared to the same period a year ago. The Commercial segment EBITDA was a loss of $428,000, as compared to income of $334,000, for 2003. The overall decline is principally attributable to competitive pricing pressures, an unfavorable worker's compensation rating market in California and start-up expenses associated with market expansion of the specialty health care group.

Liquidity and Capital Resources

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

(In thousands)	Year Ended December 31, 2005	Year Ended January 1, 2005
Operating Activities	$3,346	($424)
Investing Activities	($2,483)	($494)
Financing Activities	($141)	($2,011)

Operating Activities

Operating activities provided $3.3 million of cash for the year ended December 31, 2005 as compared to operating activities using $424,000 of cash for the comparable 2004 period. The increase in cash provided by operating activities was primarily attributable to increased earnings, an increase in accounts payable and accrued expenses and income taxes payable, which was partially offset by an increase in accounts receivable, a decrease in accrued payroll and payroll and withheld taxes. The Company continues to institute enhanced managerial controls and standardization over its receivables collection and disbursement processes.

Investing Activities

Investing activities used $2.5 million for the year ended December 31, 2005 as compared to $494,000 for the comparable prior year period. The increase in the use of cash for investing activities for 2005 as compared to the comparable prior year period was primarily attributable to the use of cash of $1.6 million for an acquisition.

Liquidity and Capital Resources (Continued)

Financing Activities

Financing activities consisted of debt reduction of $1.0 million for the fiscal year ended December 31, 2005 as compared to financing activities using $2.4 million for debt reduction for the comparable prior year period. In addition, the Company received $1.0 million in 2005 as compared to $389,000 in 2004 of cash as a result of the exercise of employee stock options and the sale of stock through the Company's Employee Stock Purchase Plan.

The Company and its subsidiaries entered into an amended and restated loan agreement on May 31, 2002, which was further amended on July 27, 2004, with Citizens Bank of Pennsylvania, administrative agent for a syndicate of banks. This agreement provides for a $25.0 million Revolving Credit Facility (the "Revolving Credit Facility"). Availability under the Revolving Credit Facility is based on 80% of the aggregate amount of accounts receivable as to which not more than 90 days have elapsed since the date of the original invoice. Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, or (ii) the agent bank's prime rate. As cash flow permits and depending on interest rate movements, the Company may, from time to time and subject to a nominal prepayment fee, apply available cash flows to reduce the Revolving Credit Facility.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of the Company's 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 2006. 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 under the Revolving Credit Facility for the years ended December 31, 2005 and January 1, 2005 were 6.31% and 3.99%, respectively. The amounts outstanding under the Revolving Credit Facility at December 31, 2005 and January 1, 2005 were $3.9 million and $4.9 million, respectively. At December 31, 2005, the Company had availability for additional borrowing under the Revolving Credit Facility of $21.0 million.

The Company anticipates that its primary uses of capital in future periods will be for working capital purposes. Funding for any long and short term capital requirements as well as future acquisitions will be derived from one or more of the Revolving Credit Facility, funds generated through operations, or future financing transactions. The Company is involved in litigation as described in Footnote 16 (Contingencies) to the financial statements. The outcome of litigation is subject to inherent uncertainties and management's view of these matters may change in the future. Were an unfavorable final outcome to occur, there exists the possibility of a material adverse impact on our financial position, liquidity, and the results of operations for the period in which the effect becomes reasonably estimable.

The Company anticipates that if the plaintiffs in the litigation matter, which is currently being appealed by the Company, are successful in their appeal of the damages, it would need to borrow funds under its Revolving Credit Facility in order to satisfy payment of the additional damages. The Company believes that its borrowing base is sufficient to allow this additional borrowing.

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

The Company does not currently have material commitments for capital expenditures and does not currently anticipate entering into any such commitments during the next 12 months. The Company's current commitments consist primarily of lease obligations for office space. The Company believes that its capital resources are sufficient to meet its present obligations and those to be incurred in the normal course of business for the next 12 months.

Liquidity and Capital Resources (Continued)

At December 31, 2005, the Company had a deferred tax asset totaling $4.0 million, primarily representing the tax effect of a litigation reserve. The Company expects to utilize the deferred tax asset during the 12 months ending December 30, 2006 by offsetting the related tax benefits of such assets against tax liabilities incurred from forecasted taxable income.

Summarized below are the Company's obligations and commitments to make future payments under lease agreements and debt obligations as of December 31, 2005 (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-Term Debt Obligations (1)	$3,900	$3,900			
Operating Lease Obligations	9,966	2,620	$3,450	$2,605	$1,291
Total	$13,866	$6,520	$3,450	$2,605	$1,291

(1) The Revolving Credit Facility is for $25.0 million and includes a sub-limit of $2.0 million for letters of credit. The agreement expires in August 2006. At December 31, 2005, there was an outstanding letter of credit for $116,000.

Significant employment agreements are as follows:

Employment Agreement

The Company has an employment agreement with its Chief Executive Officer and President, Leon Kopyt, which currently provides for an annual base salary of $475,000 and other customary benefits. In addition, the agreement provides that Mr. Kopyt's annual bonus is based on EBITDA, defined as earnings before interest, taxes, depreciation and amortization. As of December 31, 2005, the agreement expires on February 28, 2008. The agreement is for a rolling term of three years, which automatically extends each year for an additional one-year period on February 28 of each year. The employment agreement is terminable by the Company upon Mr. Kopyt's death or disability, or for "good and sufficient cause," as defined in the agreement.

Termination Benefits Agreement

The Company is party to a Termination Benefits Agreement with 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; 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, 2005, Mr. Kopyt would have been entitled to cash payments of approximately $3.2 million (representing salary and excise tax payments).

Liquidity and Capital Resources (Continued)

Severance Agreement

The Company is party to a Severance Agreement with Mr. Kopyt, dated June 10, 2002, (the "Severance Agreement"). The severance agreement provides for certain payments to be made to Mr. Kopyt and for the continuation of Mr. Kopyt's employee benefits for a specified time after his service with the Company is terminated other than "for cause," as defined in the Severance Agreement. Amounts payable to Mr. Kopyt under the Severance Agreement would be offset and reduced by any amounts received by Mr. Kopyt after his termination of employment under his current employment and termination benefits agreements, which are supplemented and not superseded by the Severance Agreement. If Mr. Kopyt had been terminated as of December 31, 2005, then under the terms of the Severance Agreement, and after offsetting, any amounts that would have been received under his current employment and termination benefits agreements, he would have been entitled to cash payments of approximately $1.7 million, inclusive of employee benefits.

Impact of Inflation

Staffing and project services are generally priced based on mark-ups on prevailing rates of pay, and as a result are able to generally maintain their relationship to direct labor costs. Permanent placement services are priced as a function of salary levels of the job candidates. In 2005, employee benefit costs, primarily health care costs, rose due to an increase in the Company's health insurance premiums. After the significant rise in insurance costs during 2003 and 2004, the Company implemented a plan to control these costs through higher co-pays and pricing adjustments during 2005. This strategy allowed the Company to offset a portion of these costs. The Company is continuing to review its options to further reduce these costs, which the Company does not believe are representative of general inflationary trends. Otherwise, inflation has not been a meaningful factor in the Company's operations.

Recently Issued Accounting Standards

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

Management believes the impact on the financial statements will be similar to the disclosures made by footnote to the financial statements, showing the effect on earnings and earnings per share of expensing the value of stock options granted for the fifty-two weeks ended December 31, 2005.

Recently Issued Accounting Standards (Continued)

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

In June 2005, the FASB's Emerging Issues Task Force reached a consensus on Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements" ("EITF 05-6"). The guidance requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. The guidance is effective for periods beginning after June 29, 2005. The Company does not expect the adoption of EITF 05-6 to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of its line of credit. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of December 31, 2005, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Presently the impact of a 10% (approximately 63 basis points) increase in interest rates on its variable debt (using average debt balances during the year ended December 31, 2005 and average interest rates) would have a relatively nominal impact on the Company's results of operations. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information in the 2006 Proxy Statement beginning immediately following the caption "ELECTION OF DIRECTORS" to, but not including, the caption "EXECUTIVE COMPENSATION" and the additional information in the 2006 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 2006 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 2006 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 AND RELATED STOCKHOLDER MATTERS

The information in the 2006 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.

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

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for issuance under equity compensation plans, excluding securities reflected in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders...............	1,935,483	$4.34	36,486
Equity compensation plans not approved by security holders...............	____________________	____________________	____________________
Total................	1,935,483	$4.34	36,486

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information in the 2006 Proxy Statement beginning immediately following the caption "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in the 2006 Proxy Statement beginning immediately following the caption "PRINCIPAL ACCOUNTANT FEES AND SERVICES" is incorporated herein by reference.

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

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

3. See Item (c) below.

(b) Reports on Form 8-K

The Company furnished to the Securities and Exchange Commission, on December 5, 2005, a Current Report on Form 8-K containing disclosure pursuant to item 7.01 of Form 8-K.

The Company furnished to the Securities and Exchange Commission, on November 9, 2005, a Current Report on Form 8-K containing disclosure pursuant to item 2.02 of Form 8-K.

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

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

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

(4)(a) Registration Rights Agreement, dated March 11, 1996, by and between RCM Technologies, Inc. and the former shareholders of The Consortium; incorporated by reference to Exhibit (c)(2) to the Registrant's Current Report on Form 8-K dated March 19, 1996, filed with the Securities and Exchange Commission on March 20, 1996.

* (10)(a) RCM Technologies, Inc. 1992 Incentive Stock Option Plan; incorporated by reference to Exhibit A of the Registrant's Proxy Statement, dated March 9, 1992, filed with the Securities and Exchange Commission on March 9, 1992.

(10)(b) RCM Technologies, Inc. 1994 Non-employee Director Stock Option Plan; incorporated by reference to the appendix of the Registrant's Proxy Statement, dated March 31, 1994, filed with the Securities and Exchange Commission on March 28, 1994.

* (10)(c) RCM Technologies, Inc. 1996 Executive Stock Option Plan, dated August 15, 1996; incorporated by reference to Exhibit 10(l) to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1996, filed with the Securities and Exchange Commission on January 21, 1997 (the "1996 10-K").

*(10)(d) RCM Technologies, Inc. 2000 Employee Stock Incentive Plan, dated January 6, 2000; incorporated by reference to Exhibit A of the Registrant's Proxy Statement, dated March 3, 2000, filed with the Securities and Exchange Commission on February 28, 2000.

* (10)(e) Second Amended and Restated Termination Benefits Agreement, dated March 18, 1997, between the Registrant and Leon Kopyt; incorporated by reference to Exhibit 10(g) to the Registrant's Registration Statement on Form S-1 SEC File No. 333-23753), filed with the Securities and Exchange Commission on March 21, 1997.

* (10)(f) Amended and Restated Employment Agreement, dated November 30, 1996, between the Registrant, Intertec Design, Inc. and Leon Kopyt; incorporated by reference to Exhibit 10(g) to the Registrant's 1996 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on January 15, 1997.

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

(c) Exhibits (Continued)

*(10)(g) RCM Technologies, Inc. 2000 Employee Stock Incentive Plan; incorporated by reference to Exhibit A to the Registrant's Proxy Statement, dated March 3, 2000, filed with the Commission on February 28, 2000.

(10)(h) Amended and Restated Loan and Security Agreement, dated May 31, 2002, between RCM Technologies, Inc. and All of its Subsidiaries with Citizens Bank of Pennsylvania, as Administrative Agent and Arranger.

* (10)(i) Severance Agreement, dated June 10, 2002, between RCM Technologies, Inc. and Leon Kopyt.

* (10)(j) Exhibit A To Severance Agreement General Release.

(10)(k) Amendment And Modification to Amended And Restated Loan and Security Agreement, dated December 30, 2002, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger.

(10)(l) Second Amendment And Modification to Amended And Restated Loan and Security Agreement, dated February 26, 2003, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger.

(10)(m) Third Amendment And Modification to Amended And Restated Loan and Security Agreement, dated October 1, 2003, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger.

(10)(n) Fourth Amendment And Modification to Amended And Restated Loan and Security Agreement, dated July 23, 2004, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger.

* (10)(o) Compensation Arrangements for Named Executive Officers.
(Filed herewith)

* (10)(p) Compensation Arrangements for Directors.
(Filed herewith)

(11) Computation of Earnings (loss) Share. (Filed herewith)

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

(23) Consent of Grant Thornton LLP. (Filed herewith)

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

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

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

(c) Exhibits (Continued)

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

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

* 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.

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Date:  March 13, 2006         By:  /s/ Leon Kopyt
                                   -----------------
                                   Leon Kopyt
                                   Chairman, President, Chief Executive
                                   Officer and Director


Date:  March 13, 2006         By:  /s/ Stanton Remer
                                   -------------------
                                   Stanton Remer
                                   Executive  Vice   President,
                                   Chief  Financial   Officer,  Treasurer,
                                   Secretary and Director
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Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant and in the capacities and on the dates indicated. This report has been signed below by

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Date:  March 13, 2006              /s/ Leon Kopyt
                                   --------------------------------
                                   Leon Kopyt
                                   Chairman,  President, Chief Executive
                                   Officer (Principal Executive Officer)
                                   and Director


Date:  March 13, 2006              /s/ Stanton Remer
                                   -------------------------------
                                   Stanton Remer
                                   Executive Vice President,
                                   Chief Financial  Officer,  Treasurer,
                                   Secretary
                                   (Principal Financial and Accounting
                                    Officer) and Director


Date:  March 13, 2006              /s/ Norman S. Berson
                                   ---------------------
                                   Norman S. Berson
                                   Director


Date:  March 13, 2006              /s/ Robert B. Kerr
                                   -------------------
                                   Robert B. Kerr
                                   Director


Date:  March 13, 2006              /s/ David Gilfor
                                   -----------------
                                   David Gilfor
                                   Director
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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

FORM 10-K

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2005 and January 1, 2005

ASSETS

	December 31, 2005	January 1, 2005
Current assets		
Cash and cash equivalents	$3,761,063	$2,401,794
Accounts receivable, net of allowance for doubtful accounts of $1,792,000 and $1,862,000 in fiscal 2005 and 2004, respectively	44,930,276	40,535,949
Restricted cash	8,572,064	8,295,625
Prepaid expenses and other current assets	2,840,700	2,790,631
Deferred tax assets	4,012,340	4,964,007
Total current assets	64,116,443	58,988,006
Property and equipment, at cost		
Equipment and leasehold improvements	10,038,094	9,572,546
Less: accumulated depreciation and amortization	6,017,593	5,153,519
	4,020,501	4,419,027
Other assets		
Deposits	166,814	138,158
Goodwill	37,660,320	35,842,896
Intangible assets, net of accumulated amortization of $405,376 and $-0- in fiscal 2005 and 2004, respectively	808,624	
	38,635,758	35,981,054
Total assets	$106,772,702	$99,388,087

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2005	January 1, 2005
Current liabilities		
Line of credit	$3,900,000	$4,900,000
Accounts payable and accrued expenses	14,979,127	13,530,131
Accrued payroll	7,087,897	6,766,586
Payroll and withheld taxes	867,274	1,099,856
Income taxes payable	4,249,779	3,146,478
Total current liabilities	31,084,077	29,443,051
Stockholders' equity		
Preferred stock, $1.00 par value; 5,000,000 shares authorized; no shares issued or outstanding		
Common stock, $0.05 par value; 40,000,000 shares authorized; 11,728,261 and 11,383,470 shares issued and outstanding in fiscal 2005 and 2004, respectively	586,413	569,173
Accumulated other comprehensive income	981,772	736,128
Additional paid-in capital	100,235,338	98,290,719
Accumulated deficit	(26,114,898)	(29,650,984)
	75,688,625	69,945,036
Total liabilities and stockholders' equity	$106,772,702	$99,388,087

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

	December 31, 2005	January 1, 2005	December 27, 2003
Revenues	$180,618,164	$169,277,490	$206,605,188
Cost of services	137,935,632	128,303,645	162,010,502
Gross profit	42,682,532	40,973,845	44,594,686
Operating costs and expenses			
Selling, general and administrative	35,460,706	34,330,392	32,557,953
Depreciation	1,110,676	1,149,991	1,192,293
Amortization	95,376	68,556	31,104
Impairment of goodwill		2,164,338	
Compensation expense for stock option tender offer			6,691,590
	36,666,758	37,713,277	40,472,940
Operating income	6,015,774	3,260,568	4,121,746
Other (expenses) income			
Interest expense, net of interest income	(221,070)	(474,420)	(314,491)
Gain on foreign currency transactions	11,898	24,954	132,296
	(209,172)	(449,466)	(182,195)
Income before income taxes	5,806,602	2,811,102	3,939,551
Income tax expense	2,270,516	604,235	1,160,398
Net income	$3,536,086	$2,206,867	$2,779,153

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

	December 31, 2005	January 1, 2005	December 27, 2003
Basic earnings per share			
Net income	$.31	$.19	$.26
Weighted average number of common shares outstanding	11,456,757	11,325,626	10,716,179
Diluted earnings per share			
Net income	$.30	$.19	$.26
Weighted average number of common and common equivalent shares outstanding (includes dilutive securities relating to options of 274,834 in 2005, 354,186 in 2004 and 180,126 in 2003)	11,731,591	11,679,812	10,896,305

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

	Common Stock Shares	Common Stock Amount	Accumulated Other Comprehensive Income (Loss)	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
Balance, December 28, 2002	10,626,076	$531,304	($584,084)	$93,935,938	($34,637,004)	$59,246,154
Issuance of stock under employee stock purchase plan	39,926	1,996		129,419		131,415
Exercise of stock options	11,500	575		42,925		43.500
Issuance of restricted shares pursuant to stock option tender offer	607,777	30,389		3,798,606		3,828,995
Translation adjustment			1,140,879			1,140,879
Net income					2,779,153	2,779,153
Balance, December 27, 2003	11,285,279	564,264	556,795	97,906,888	(31,857,851)	67,170,096
Issuance of stock under employee stock purchase plan	37,107	1,855		174,365		176,220
Exercise of stock options	61,084	3,054		209,466		212,520
Translation adjustment			179,333			179,333
Net income					2,206,867	2,206,867
Balance, January 1, 2005	11,383,470	569,173	736,128	98,290,719	(29,650,984)	69,945,036
Issuance of stock under employee stock purchase plan	38,941	1,947		144,431		146,378
Exercise of stock options	205,850	10,293		843,188		853,481
Issuance of common stock and stock options in connection with acquisition	100,000	5,000		957,000		962,000
Translation adjustment			245,644			245,644
Net income					3,536,086	3,536,086
Balance, December 31, 2005	11,728,261	$586,413	$981,772	$100,235,338	($26,114,898)	$75,688,625

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

	December 31, 2005	January 1, 2005	December 27, 2003
Net income	$3,536,086	$2,206,867	$2,779,153
Foreign currency translation adjustment	245,644	179,333	1,140,879
Comprehensive income	$3,781,730	$2,386,200	$3,920,032

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

	December 31, 2005	January 1, 2005	December 27, 2003
Cash flows from operating activities:			
Net income	$3,536,086	$2,206,867	$2,779,153
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,206,052	1,218,547	1,223,397
Provision for allowances on accounts Receivable	(70,000)	8,000	305,000
Recognition of noncash portion of compensation expense for stock tender offer			3,828,995
Goodwill impairment		2,164,338	
Deferred tax assets	951,667	(365,634)	(308,106)
Changes in assets and liabilities:			
Accounts receivable	(4,341,774)	(4,274,580)	(4,820,435)
Income tax refund receivable	17,401		3,766,585
Restricted cash	(276,439)		(8,295,625)
Prepaid expenses and other current assets	(67,470)	(691,428)	536,098
Accounts payable and accrued expenses	1,448,996	(2,043,905)	845,307
Accrued payroll	321,311	1,310,255	1,093,306
Payroll and withheld taxes	(232,581)	922,826	(16,820)
Income taxes payable	1,103,301	(879,619)	1,956,518
Total adjustments	60,464	(2,631,200)	114,220
Net cash provided by (used in) operating activities	$3,596,550	($424,333)	$2,893,373

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

	December 31, 2005	January 1, 2005	December 27, 2003
Cash flows from investing activities:			
Property and equipment acquired	($558,131)	($439,246)	($431,816)
(Increase) decrease in deposits	(28,656)	(55,200)	3,632
Cash paid for acquisition, net of working capital acquired	(1,895,997)		(1,353,638)
Net cash used in investing activities	(2,482,784)	(494,446)	(1,781,822)
Cash flows from financing activities:			
Net repayments of line of credit	(1,000,000)	(2,400,000)	(120,000)
Sale of stock for employee stock purchase plan	146,378	176,220	131,415
Exercise of stock options	853,481	212,520	43,500
Net cash (used in) provided by financing activities	(141)	(2,011,260)	54,915
Effect of exchange rate changes on cash and cash equivalents	245,644	179,334	1,140,879
Net increase (decrease) in cash and cash equivalents	1,359,269	(2,750,705)	2,307,345
Cash and cash equivalents at beginning of year	2,401,794	5,152,499	2,845,154
Cash and cash equivalents at end of year	$3,761,063	$2,401,794	$5,152,499

Supplemental cash flow information:			
Cash paid for:			
Interest	$332,892	$201,101	$244,727
Income taxes (refund)	422,917	1,753,251	(3,951,320)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

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

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

Fiscal Periods

The reporting period for the Company is the Saturday closest to the last day in December. Fiscal years 2005 and 2003 represent the 52 weeks ended December 31, 2005 and December 27, 2003, respectively. Fiscal year 2004 represents the 53 weeks ended January 1, 2005.

Cash and Cash Equivalents

The Company considers its holdings of highly liquid money-market instruments to be cash equivalents if the securities mature within 90 days from the date of acquisition. These investments are carried at cost, which approximates fair value.

Fair Value of Financial Instruments

The Company's carrying value of financial instruments, consisting primarily of accounts receivable and debt approximates fair value. The Company does not have any off-balance sheet financial instruments. The Company does not have derivative products in place to manage risks related to foreign currency fluctuations for its foreign operations or for interest rate changes.

Allowance for Doubtful Accounts

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

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

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair market value of identifiable assets. In accordance with SFAS 142, Goodwill and Other Intangible Assets, the Company performs its annual goodwill impairment testing, by reportable segment, in the fourth quarter, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducted its annual goodwill impairment test as of November 30, 2005 and identified no impairments. Goodwill at December 31, 2005 and January 1, 2005 was $37,330,000 and $35,843,000, respectively.

During the fourth quarter of fiscal year 2004, the review indicated that there was an impairment of value, which resulted in a $2.2 million charge to expense for the fiscal year ended January 1, 2005, in order to properly reflect the appropriate carrying value of goodwill. The aforementioned impairment was in a reporting unit within the Company's Information Technology business segment. The results of the 2003 impairment testing indicated no impairment of goodwill.

Long-Lived Assets

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

Software

In accordance with the American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). Certain costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software. During the years ended December 31, 2005, January 1, 2005 and December 27, 2003, the Company capitalized approximately $269,000, $226,000 and $114,000, respectively, of software costs in accordance with SOP 98-1.

Income Taxes

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

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

Project Services - The Company recognizes revenues in accordance with the Securities and Exchange Commission, Staff Accounting Bulletin (SAB) Number 104, "Revenue Recognition" ("SAB 104"). SAB 104 clarifies application of U.S. generally accepted accounting principles to revenue transactions. Project services are generally provided on a cost-plus-fixed-fee or time-and-material basis. Typically, a customer will outsource a discrete project or activity and the Company assumes responsibility for the performance of such project or activity. The Company recognizes revenues and associated costs on a gross basis as services are provided to the customer and costs are incurred using its employees. The Company, from time to time, enters into contracts requiring the completion of specific deliverables. The Company recognizes revenue on these deliverables at the time the client accepts and approves the deliverables. In instances where project services are provided on a fixed-price basis and the contract will extend beyond a 12-month period, revenue is recorded in accordance with the terms of each contract. In some instances, revenue is billed and recorded at the time certain milestones are reached, as defined in the contract. In other instances, revenue is billed and recorded based upon contractual rates per hour. In addition, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when the contract is completed and the revenue is reasonably certain of collection. Some contracts also limit revenues and billings to maximum amounts. Provision for contract losses, if any, is made in the period such losses are determined. Expenses related to contracts that extend beyond a 12-month period are charged to Cost of Services as incurred.

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

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

Concentration

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration (Continued)

During 2003, the Company's largest customer accounted for 22% of the Company's revenues. The Company's five and ten largest customers accounted for approximately 42% and 52%, respectively, of the Company's revenues for 2003.

Foreign Currency Translation

The Company's foreign subsidiary uses Canadian currency as the functional currency. Net assets are translated at year-end rates while revenues and expenses are translated at average exchange rates. Adjustments resulting from these translations are reflected in "Accumulated Other Comprehensive Income (Loss)" in shareholders' equity. Gains and losses arising from foreign currency transactions are reflected in the consolidated statements of income.

Comprehensive Income

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

Per Share Data

Basic net income per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted net income per share is calculated using the weighted-average number of common shares plus dilutive potential common shares outstanding during the period. Potential common shares consist of stock options that are computed using the treasury stock method. 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 for 2005, 2004 and 2003 was determined as follows:

	Year Ended December 31, 2005	Year Ended January 1, 2005	Year Ended December 27, 2003
Basic average shares outstanding	11,456,757	11,325,626	10,716,179
Dilutive effect of stock options	274,834	354,186	180,126
Dilutive shares	11,731,591	11,679,812	10,896,305

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

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

Options to purchase 1,214,916 shares of common stock at prices ranging from $3.00 to $11.93 per share were outstanding as of December 27, 2003. There were 428,000 options not included in the calculation of common stock equivalents because the exercise price of the options exceeded the average market price for the year ended December 31, 2003.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock Based Compensation

The Company accounts for stock options under SFAS No. 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123 ("SFAS 148"), which contains a fair value-based method for valuing stock-based compensation, that measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue accounting for employee stock options and similar equity instruments under Accounting Principles Board APB Opinion No. 25. Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

At December 31, 2005, the Company has four stock-based employee compensation plans. The Company accounts for the plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Stock-based employee compensation costs are not reflected in net earnings, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation (in thousands, except per share amounts).

	December 31, 2005	January 1, 2005	December 27, 2003
Net income, as reported	$3,536	$2,207	$2,779
Less: stock-based compensation costs determined under fair value based method for all awards	692	321	500
Net income, pro forma	$2,844	$1,886	$2,279
Earnings per share of common stock-basic:			
As reported	$.31	$.19	$.26
Pro forma	$.25	$.16	$.21
Earnings per share of common stock-diluted:			
As reported	$.30	$.19	$.26
Pro forma	$.24	$.16	$.21

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock Based Compensation (Continued)

The pro-forma compensation cost using the fair value-based method under SFAS No. 123 includes valuations related to stock options granted since January 1, 1995 using the Black-Scholes Option Pricing Model. The weighted average fair value of options granted using Black-Scholes Option Pricing Model during 2005, 2004 and 2003 has been estimated using the following assumptions:

	Year Ended December 31, 2005	Year Ended January 1, 2005	Year Ended December 27, 2003
Risk-free interest rate	3.91%	3.74%	3.18%
Expected life of option	5 years	5 years	5 years
Expected stock price volatility	58%	60%	66%
Expected dividend yield	-	-	-
Weighted-average per share value granted	$2.51	$2.65	$2.29

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was $884,000, $667,000, and $595,000 for the years ended December 31, 2005, January 1, 2005, and December 27, 2003, respectively.

Use of Estimates and Uncertainties

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

The Company has risk participation arrangements with respect to workers compensation and health care insurance. The amounts included in the Company's costs related to this risk participation are estimated and can vary based on changes in assumptions, the Company's claims experience or the providers included in the associated insurance programs.

The Company can be affected by a variety of factors including uncertainty relating to the performance of the U.S. economy, competition, demand for the Company's services, adverse litigation and claims and the hiring, training and retention of key employees.

New Accounting Standards

In December 2004, the FASB issued SFAS 123R, which is a revision of SFAS No. 123. SFAS 123R supersedes APB Opinion No. 25, and amends FASB Statement No. 95, Statement of Cash Flows. The approach to quantifying stock-based compensation expense in SFAS 123R is similar to SFAS No. 123. However, the revised statement requires all share-based payments to employees, including grants of employee stock options, to be recognized as an expense in the Consolidated Statements of Income based on their fair values as they are earned by the employees under the vesting terms. Pro forma disclosure of stock-based compensation expense, as is the Company's practice under SFAS No. 123, will not be permitted after 2005, since SFAS 123R must be adopted no later than the first interim or annual period beginning after December 15, 2005. The Company has adopted the "modified prospective" method of adoption of SFAS 123R effective January 1, 2006, whereby earnings for prior periods will not be restated as though stock based compensation had been expensed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

Management believes the impact on the financial statements will be similar to the disclosures made by footnote to the financial statements, showing the effect on earnings and earnings per share of expensing the value of stock options granted for the fifty-two weeks ended December 31, 2005.

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

In June 2005, the FASB's Emerging Issues Task Force reached a consensus on Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements" ("EITF 05-6"). The guidance requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. The guidance is effective for periods beginning after June 29, 2005. The Company does not expect the adoption of EITF 05-6 to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

2. ACQUISITION

On October 17, 2005, the Company acquired Soltre Technology, Inc., a Delaware Corporation, ("Soltre"), a Los Angeles, California based specialty provider of consulting and technology services. The acquisition was effective as of September 1, 2005, and was accomplished through a stock purchase transaction pursuant to which Soltre, through an exchange of all of its outstanding shares of stock for cash and shares of RCM's common stock, became a wholly-owned subsidiary of the Company.

The purchase consideration paid to the former stockholders of Soltre consisted of $1,868,000 cash, 100,000 shares of RCM's common stock, par value $.05, valued at $632,000 and 100,000 of stock options valued at $330,000 and $2,400,000 of deferred consideration contingent upon Soltre achieving certain base levels of operating income for each of the three twelve month periods following the purchase. An additional earn-out payment may be made to the former stockholders at the end of each of the three twelve month periods following the purchase, to the extent that operating income exceeds these base levels.

2. ACQUISITION (Continued)

The acquisition has been accounted for in accordance with SFAS No. 141, "Business Combinations." The deferred consideration and earnouts, if paid, will be recorded as additional purchase consideration. Earnouts cannot be estimated with any certainty.

The allocation of the purchase price is as follows:

	(In thousands)	Period of Amortization- Years
Equipment	$109	
Non-compete agreements	114	5
Customer relationships	790	3
Goodwill	1,817	
	$2,830	

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

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

(In thousands, except per share amounts)	Fifty-Two Weeks Ended December 31, 2005	Fifty-Three Weeks Ended January 1, 2005	Fifty-Two Weeks Ended December 27, 2003
Revenues	$186,228,885	$173,008,215	$211,195,811
Operating income	6,792,651	3,472,061	4,319,584
Net income	$3,946,485	$2,277,886	$2,896,820
Earnings per share	$.33	$.19	$.26

In connection with certain post acquisitions, the Company was obligated to pay contingent consideration to the selling shareholders upon the acquired businesses achieving certain earnings targets over periods ranging from two to three years. The Deferred Consideration and Earnouts, when paid, were recorded as additional purchase consideration and added to goodwill on the consolidated balance sheet. The deferred consideration and earnout payments made for businesses acquired before 2001 were made in years following the year in which the acquisitions occurred. Cash used in investing activities in the Consolidated Statements of Cash Flows reflects the year in which the cash outlay occurred.

3. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	December 31, 2005	January 1, 2005
Equipment and furniture	$1,761,454	$1,967,137
Computers and systems	7,585,782	7,007,352
Leasehold improvements	690,858	598,057
	10,038,094	9,572,546
Less: accumulated depreciation and amortization	6,017,593	5,153,519
	$4,020,501	$4,419,027

The Company writes off fully depreciated assets each year. In fiscal 2005, 2004 and 2003, the write offs were $881,000, $438,000 and $117,000, respectively.

4. GOODWILL AND INTANGIBLES

In accordance with SFAS 142, Goodwill and Other Intangible Assets, the Company performs its annual goodwill impairment testing, by reportable segment, in the fourth quarter, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducted its annual goodwill impairment test as of November 30, 2005 and identified no impairments. Goodwill at December 31, 2005 and January 1, 2005 was $37,330,000 and $35,843,000, respectively. There can be no assurance that future tests of goodwill impairment will not result in further impairment charges.

During the fourth quarter of fiscal year 2004, the review indicated that there was an impairment of value, which resulted in a $2.2 million charge to expense for the fiscal year ended January 1, 2005, in order to properly reflect the appropriate carrying value of goodwill. The aforementioned impairment was in a reporting unit within the Company's Information Technology business segment. The results of the 2003 impairment testing indicated no impairment of goodwill.

The changes in the carrying amount of goodwill for the years ended December 31, 2005 and January 1, 2005 are as follows (in thousands):

	Information Technology	Engineering	Commercial	Total
Balance as of December 27, 2003	$30,479	$7,528		$38,007
Goodwill impairment losses	(2,164)			(2,164)
Balance as of January 1, 2005	28,315	7,528		35,843
Goodwill acquired during the year	1,817			1,817
Balance as of December 31, 2005	$30,132	$7,528		$37,660

4. GOODWILL AND INTANGIBLES (Continued)

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

	December 31, 2005		January 1, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Definite-lived intangible assets				
Non-compete agreements	$114	$8	$311	$311
Customer relationships	790	88		
Total	$904	$96	$311	$311

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

Year	Amount
2006	$286,000
2007	286,000
2008	198,000
2009	23,000
2010	15,000
	$808,000

5. ACCOUNTS PAYABLE

Accounts payable and accrued expenses consist of the following at December 31, 2005 and January 1, 2005.

	December 31, 2005	January 1, 2005
Accounts payable - trade	$5,649,920	$5,311,318
Due to sellers	794,894	
Reserve for litigation	8,534,313	8,218,813
Total	$14,979,127	$13,530,131

6. LINE OF CREDIT

On May 31, 2002, the Company and its subsidiaries entered into an amended and restated loan agreement, which was further amended on October 17, 2004, with Citizens Bank of Pennsylvania, administrative agent for a syndicate of banks, which provides for a $25 million Revolving Credit Facility (the "Revolving Credit Facility"). Availability of credit under the Revolving Credit Facility is based on 80% of the aggregate amount of accounts receivable for which not more than 90 days have elapsed since the date of the original invoice. Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin or (ii) the agent bank's prime rate.

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

The Revolving Credit Facility expires in August 2006. Management of the Company has commenced negotiations for renewal or replacement of the Revolving Credit Facility. The weighted average interest rates under the Revolving Credit Facility for the years ended December 31, 2005 and January 1, 2005 were 6.31% and 3.99%, respectively. The amounts outstanding under the Revolving Credit Facility at December 31, 2005 and January 1, 2005 were $3.9 million and $4.9 million, respectively. At December 31, 2005, the Company had availability for additional borrowing under the Revolving Credit Facility of $21.0 million.

7. STOCKHOLDERS' EQUITY

Common Stock Reserved

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

	December 31, 2005	January 1, 2005
Exercise of options outstanding	1,935,483	1,183,583
Future grants of options	36,486	994,236
Total	1,971,969	2,177,819

Incentive Stock Option Plans

1992 Incentive Stock Option Plan (the 1992 Plan)

The 1992 Plan, approved by the Company's stockholders in April 1992, and amended in April 1998, provided for the issuance of up to 500,000 shares of common stock per individual to officers, directors, and key employees of the Company and its subsidiaries, through February 13, 2002, at which time the 1992 Plan expired. The options issued were intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code. The option terms were not permitted to exceed ten years and the exercise price was not permitted to be less than 100% of the fair market value of the shares at the time of grant. The Compensation Committee of the Board of Directors determined the vesting period at the time of grant for each of these options. At December 31, 2005, options to purchase 84,855 shares of common stock were outstanding.

7. SHAREHOLDERS' EQUITY (CONTINUED)

Incentive Stock Option Plans (Continued)

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

The 1994 Plan, approved by the Company's stockholders in May 1994, and amended in April 1998, provided for issuance of up to 110,000 shares of common stock to non-employee directors of the Company through February 19, 2004, at which time the 1994 Plan expired. Options granted under the 1994 Plan were granted at fair market value at the date of grant, and the exercise of options is contingent upon service as a director for a period of one year. Options granted under the 1994 Plan terminate when an optionee ceases to be a Director of the Company. At December 31, 2005, options to purchase 70,000 shares of common stock were outstanding.

1996 Executive Stock Option Plan (the 1996 Plan)

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provides for issuance of up to 1,250,000 shares of common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006. Options are generally granted at fair market value at the date of grant. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. At December 31, 2005, options to purchase 10,180 shares of common stock are available for future grants, and options to purchase 1,148,045 shares of common stock were outstanding.

2000 Employee Stock Incentive Plan (the 2000 Plan)

The 2000 Plan, approved by the Company's stockholders in April 2001, provides for issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors may award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determines the vesting period at the time of grant. At December 31, 2005, options to purchase 26,306 shares of common stock are available for future grants, and options to purchase 632,583 shares of common stock were outstanding.

Transactions related to all stock options are as follows:

	Year Ended December 31, 2005	Weighted-Average Exercise Price	Year Ended January 1, 2005	Weighted-Average Exercise Price	Year Ended December 27, 2003	Weighted-Average Exercise Price
Outstanding options At beginning of year	1,183,583	$4.03	1,214,916	$3.85	2,474,214	$7.15
Granted	1,003,000	4.67	149,000	4.86	220,000	3.91
Cancellations	(45,250)	4.62	(119,249)	3.49	(1,467,798)	9.51
Exercised	(205,850)	4.15	(61,084)	3.48	(11,500)	6.93
Outstanding options At end of year	1,935,483	$4.34	1,183,583	$4.03	1,214,916	$3.85
Exercisable options At end of year	770,150		766,500		432,500	
Option grant price Per share	$3.00 to $7.04		$3.00 to $7.04		$3.00 to $11.93	

7. STOCKHOLDERS' EQUITY (CONTINUED)

Incentive Stock Option Plans (Continued)

The following table summarizes information about stock options outstanding at December 31, 2005:

Range of Exercise Prices	Number of Outstanding Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$3.00 - $4.40	1,251,583	7.88 years	$3.38
$4.70 - $7.04	683,900	7.91 years	$4.84

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, 2005, there were 38,941 shares issued under the Purchase Plan for net proceeds of $146,378. As of December 31, 2005, there were 258,958 shares available for issuance under the Purchase Plan.

8. STOCK OPTION TENDER OFFER

In order to enhance long-term value for the shareholders of the Company, reduce the number of options outstanding and improve the Company's ability to retain and provide incentives to employees and directors, on September 30, 2003, the Company made a tender offer to exchange stock options. The tender offer had a strike price of $7.00 or greater for shares of restricted stock and cash.

Upon expiration of the tender offer on November 14, 2003, option holders participating in the tender offer received in the aggregate, 607,777 shares of restricted stock having an aggregate value of $3.8 million ($6.30 per share) as well as cash consideration of $2.6 million, which was equal to 67% of the value of the restricted common stock. Participants surrendered options to purchase 1,327,973 shares of common stock, which represented 100% of all options eligible to be surrendered. The Company recorded a charge of $6.7 million ($4.0 million after-tax) to compensation expense in the fourth quarter of 2003 due to the tender offer.

Provided the Company has U.S. Federal taxable income in future periods, the exchange offer will be approximately cash flow neutral to the Company as the combined tax benefits (both the value of the restricted common stock issued and the cash consideration paid are tax deductible expenses) will be approximately equal the actual cash consideration paid to employees and directors.

All shares of restricted stock issued pursuant to the tender offer were fully vested on the stock grant date, but are subject to transfer restrictions. The transfer restrictions lapsed on the first anniversary of the stock grant date, November 14, 2004.

9. RETIREMENT PLANS

Profit Sharing Plan

The Company maintains a 401(k) profit sharing plan for the benefit of eligible employees. The 401(k) plan includes a cash or deferred arrangement pursuant to Section 401(k) of the Internal Revenue Code sponsored by the Company to provide eligible employees an opportunity to defer compensation and have such deferred amounts contributed to the 401(k) plan on a pre-tax basis, subject to certain limitations. The Company at the discretion of the Board of Directors may make contributions of cash to match deferrals of compensation by participants. Contributions charged to operations by the Company for years ended December 31, 2005, January 1, 2005 and December 27, 2003 were $100,000, $111,000 and $91,000, respectively.

Nonqualified Defined Compensation Plan

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

10. COMMITMENTS

Employment Agreement

The Company has an employment agreement with its Chief Executive Officer and President, Leon Kopyt ("Mr. Kopyt"), which currently provides for an annual base salary of $475,000 and other customary benefits. In addition, the agreement provides that Mr. Kopyt's annual bonus is based on EBITDA, defined as earnings before interest, taxes, depreciation, and amortization. As of December 31, 2005, the agreement expires on February 28, 2008. The agreement is for a rolling term of three years, which automatically extends each year for an additional one-year period on February 28 of each year. The employment agreement is terminable by the Company upon Mr. Kopyt's death or disability, or for "good and sufficient cause," as defined in the agreement.

Termination Benefits Agreement

The Company is party to a Termination Benefits Agreement with its Chief Executive Officer, Leon Kopyt amended and restated as of March 18, 1997 (the "Benefits Agreement"). Pursuant to the Benefits Agreement, following a Change in Control (as defined therein), the remaining term of Mr. Kopyt's employment is extended for five years (the "Extended Term"). If Mr. Kopyt's employment is terminated thereafter by the Company other than for cause, or by Mr. Kopyt for good reason (including, among other things, a material change in Mr. Kopyt's salary, title, reporting responsibilities or a change in office location which requires Mr. Kopyt to relocate), then the following provisions take effect: the Company is obligated to pay Mr. Kopyt a lump sum equal to his salary and bonus for the remainder of the Extended Term; and the Company shall be obligated to pay to Mr. Kopyt the amount of any excise tax associated with the benefits provided to Mr. Kopyt under the Benefits Agreement. If such a termination had taken place as of December 31, 2005, Mr. Kopyt would have been entitled to cash payments of approximately $3.2 million (representing salary and excise tax payments).

10. COMMITMENTS (CONTINUED)

Severance Agreement

The Company is party to a Severance Agreement with Mr. Kopyt, dated June 10, 2002, (the "Severance Agreement"). The agreement provides for certain payments to be made to Mr. Kopyt and for the continuation of Mr. Kopyt's employee benefits for a specified time after his service with the Company is terminated other than "for cause," as defined in the Severance Agreement. Amounts payable to Mr. Kopyt under the Severance Agreement would be offset and reduced by any amounts received by Mr. Kopyt after his termination of employment under his current employment and termination benefits agreements, which are supplemented and not superseded by the Severance Agreement. If Mr. Kopyt had been terminated as of December 31, 2005, then under the terms of the Severance Agreement, and after offsetting, any amounts that would have been received under his current employment and termination benefits agreements, he would have been entitled to cash payments of approximately $1.7 million, inclusive of employee benefits.

Operating Leases

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

Year ending December 31,	Amount
2006	$2,620
2007	1,981
2008	1,469
2009	1,391
2010	1,214
Thereafter	1,291
Total	$9,966

Rent expense for the fiscal years ended December 31, 2005, January 1, 2005 and December 27, 2003 was $3,514,000, $3,671,000, and $2,666,000, respectively.

The Company subleases space at various office locations under cancelable lease agreements. During fiscal 2005, 2004 and 2003 revenues of approximately $22,000, $109,000, and $279,000, respectively, were recognized under these leasing arrangements.

11. RELATED PARTY TRANSACTIONS

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

12. INCOME TAXES

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

	Year Ended December 31, 2005	Year Ended January 1, 2005	Year Ended December 27, 2003
Current			
Federal	$930,020	$30,000	
State and local	511,427		
Foreign	(122,500)	939,869	$1,050,056
	1,318,947	969,869	1,050,056
Deferred			
Federal	808,932	(310,789)	93,791
State and local	142,735	(54,845)	16,551
	951,667	(365,634)	110,342
Total	$2,270,516	$604,235	$1,160,398

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

	December 31, 2005	January 1, 2005	December 27, 2003
Tax at statutory rate (credit)	34.0%	34.0%	34.0%
State income taxes, net of Federal income tax benefit	5.7	6.6	
Foreign income tax effect	2.9	1.7	.5
Deductible amortization	(4.1)	(8.4)	(5.9)
Change in valuation allowance		(26.5)	
Non-deductible charges	(2.4)	11.3	
Other, net	3.0	2.8	.9
Total income tax expense	39.1%	21.5%	29.5%

At December 31, 2005 and January 1, 2005, deferred tax assets and liabilities consist of the following:

Deferred tax assets:	December 31, 2005	January 1, 2005
Net operating loss carryforward		$982,503
Allowance for doubtful accounts	$716,909	744,800
Reserves and accruals	165,147	149,246
Litigation reserve	3,130,284	3,219,560
	4,012,340	5,096,109
Deferred tax liabilities:		
Prepaid expense benefit		(132,102)
	4,012,340	4,964,007
Valuation allowance		
Net deferred tax assets	$4,012,340	$4,964,007

13. INTEREST EXPENSE, NET OF INTEREST INCOME

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

	December 31, 2005	January 1, 2005	December 27, 2003
Interest expense	($567,683)	($536,099)	($382,568)
Interest income	346,613	61,679	68,077
	($221,070)	($474,420)	($314,491)

14. 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):

14. SEGMENT INFORMATION (CONTINUED)

Fiscal 2005	Information Technology	Engineering	Commercial	Corporate	Total
Revenue	$98,010	$47,683	$34,925		$180,618
Operating expenses (1)	92,173	47,425	33.798		173,396
EBITDA (1) (2)	5,837	258	1,127		7,222
Depreciation	578	373	160		1,111
Amortization of intangibles	95				95
Operating income (loss)	5,164	(115)	967		6,016
Interest expense, net of interest income	120	58	43		221
Gain on foreign currency transactions		(12)			(12)
Income taxes (benefit)	1,973	(63)	361		2,271
Net income (loss)	$3,071	($98)	$563		$3,536
Total assets	$54,729	$19,316	$11,953	$20,775	$106,773
Capital expenditures	$275	$125		$158	$558

14. SEGMENT INFORMATION (CONTINUED)

Fiscal 2004	Information Technology	Engineering	Commercial	Corporate	Total
Revenue	$92,907	$51,173	$25,198		$169,278
Operating expenses (1)	88,613	48,396	25,626		162,635
Impairment of goodwill	2,164				2,164
EBITDA (1) (2)	2,130	2,827	(428)		4,479
Depreciation	628	407	115		1,150
Amortization of intangibles	20	43	5		68
Operating income	1,482	2,327	(548)		3,261
Interest expense, net of interest income	261	144	70		475
Gain on foreign currency transactions		(25)			(25)
Income taxes (benefit)	262	475	(133)		604
Net income	$959	$1,733	($485)		$2,207
Total assets	$48,556	$23,275	$6,643	$20,914	$98,388
Capital expenditures	$17	$44	$5	$373	$439

14. SEGMENT INFORMATION (CONTINUED)

Fiscal 2003	Information Technology	Engineering	Commercial	Corporate	Total
Revenue	$100,872	$86,696	$19,037		$206,605
Operating expenses (1)	93,116	82,838	18,614		194,568
Compensation expense for stock option tender offer	500	486	89	5,617	6,692
EBITDA (1) (2)	7,256	3,372	334	(5,617)	5,345
Depreciation	595	526	71		1,192
Amortization of intangibles	13	15	3		31
Operating income	6,648	2,831	260	(5,617)	4,122
Interest expense, net of interest income	153	132	29		314
Gain on foreign currency transactions		(132)			(132)
Income taxes (benefit)	1,914	834	68	(1,655)	1,161
Net income	$4,581	$1,997	$163	($3,962)	$2,779
Total assets	$49,866	$21,330	$5,749	$22,759	$99,704
Capital expenditures	$110	$156	$25	$141	$432

(1) Operating expenses excludes depreciation and amortization.

(2) EBITDA means earnings before interest, taxes, depreciation and amortization. We believe that EBITDA, as presented, represents a useful measure of assessing the performance of our operating activities, as it reflects our earnings trends without the impact of certain non-cash and unusual charges or income. EBITDA is also used by our creditors in assessing debt covenant compliance. We understand that, although security analysts frequently use EBITDA in the evaluation of companies, it is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation. EBITDA is not intended as an alternative to cash flow provided by operating activities as a measure of liquidity, as an alternative to net income as an indicator of our operating performance, nor as an alternative to any other measure of performance in conformity with generally accepted accounting principles.

14. SEGMENT INFORMATION (CONTINUED)

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

	December 31, 2005	January 1, 2005	December 27, 2003
Consolidated operating income	$6,016	$3,261	$4,122
Interest expense, net of interest income	(221)	(475)	(314)
Gain on foreign currency transactions	12	25	132
Consolidated pretax income	$5,807	$2,811	$3,940

The Company derives a majority of its revenue from companies headquartered in the United States. During 2003, the Company's largest customer accounted for 22% of the Company's revenues. However, of the $45.1 million in 2003 revenues from that customer, $24.1 million represented "pass-through" revenues where the Company acted as a general contractor. If the Company adjusted for these pass-through revenues, its largest customer would have accounted for 11.5% of total revenues. In fiscal year 2004, the Company's largest customer accounted for 7.4% of the Company's revenues. In fiscal year 2005, the Company's largest customer accounted for 8.7% of the Company's revenues. Revenues from Canadian operations for the years ended December 31, 2005, January 1, 2005, and December 27, 2003 were $14.4 million, $20.0 million, and $56.4 million, respectively.

Revenues reported for each operating segment are all from external customers.

The Company is domiciled in the United States and its segments operate in the United States and Canada. Revenues and fixed assets by geographic area for the years ended December 31, 2005, January 1, 2005, and December 27, 2003 are as follows (in thousands):

	December 31, 2005	January 1, 2005	December 27, 2003
Revenues			
United States	$165,808	$149,247	$150,245
Canada	14,810	20,030	56,360
	$180,618	$169,277	$206,605
Fixed Assets			
United States	$3,873	$4,210	$4,788
Canada	147	209	342
	$4,020	$4,419	$5,130

15. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Year Ended December 31, 2005

	Sales	Gross Profit	Net Income	Diluted Net Income Per Share (a)
1st Quarter	$44,081,579	$10,108,434	$832,663	$.07
2nd Quarter	46,324,401	11,057,047	1,168,035	.10
3rd Quarter	43,390,661	10,153,216	716,844	.06
4th Quarter	46,821,523	11,363,836	818,544	.07
Total	$180,618,164	$42,682,533	$3,536,086	$.30

Year Ended January 1, 2005

	Sales	Gross Profit	Net Income (Loss)	Diluted Net Income (Loss) Per Share (a)
1st Quarter	$41,272,729	$10,027,438	$795,953	$.07
2nd Quarter	45,348,773	10,699,339	869,298	.08
3rd Quarter	40,933,476	9,963,938	765,514	.07
4th Quarter	41,722,512	10,283,130	(223,898)	(.02)
Total	$169,277,490	$40,973,845	$2,206,867	$.19

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

16. CONTINGENCIES

In late 1998, two shareholders who were formerly officers and directors of the Company filed suit against the Company alleging wrongful termination of their employment, failure to make required severance payments, wrongful conduct by the Company in connection with the grant of stock options, and wrongful conduct by the Company resulting in the non-vestiture of their option grants. The complaint also alleged that the Company wrongfully limited the number of shares of the Company's common stock that could have been sold by the plaintiffs under a registration rights agreement entered into in connection with the underlying acquisition transaction pursuant to which the plaintiffs became shareholders of the Company. The claim under the registration rights agreement sought the difference between the amount for which plaintiffs could have sold their RCM shares during the 12-month period ended March 11, 1999, but for the alleged wrongful limitation on their sales, and the amount for which the plaintiffs sold their shares during that period and thereafter.

The claim relating to the wrongful termination of the employment of one of the plaintiffs and the claims of both plaintiffs concerning the grant of stock options were resolved in binding arbitration in early 2002. A trial on the remaining claims commenced on December 2, 2002 and a verdict was returned on January 24, 2003.

On the claims by both plaintiffs, concerning the alleged wrongful limitation by the Company of the number of shares that the plaintiffs could sell during the 12-month period ended March 11, 1999, a verdict awarding damages of $7.6 million against the Company was returned. On June 23, 2003, the trial judge denied the Company's post-trial motions that challenged the jury verdict and upheld the verdict. On August 4, 2003, the trial judge entered a judgment in favor of the plaintiffs for $7.6 million in damages and awarded plaintiffs $172,000 in post-verdict pre-judgment interest. Post-judgment interest will continue to accrue on the judgment at the rate of 4% per annum in 2006.

16. CONTINGENCIES (CONTINUED)

The Company appealed the judgment entered in the Law Division to the Appellate Division of the Superior Court of New Jersey, and obtained a stay pending appeal of, that judgment. In order to secure the stay, the Company made a cash deposit in lieu of bond of $8.3 million with the Trust Fund of the Superior Court of New Jersey. This deposit is recorded as restricted cash on the consolidated balance sheet and earns interest at a rate that approximates the daily federal funds rate. The plaintiffs cross-appealed from the Court's denial of pre-verdict, pre-judgment interest on the damages portion of the August 4, 2003 judgment and from the Court's refusal to grant judgment as a matter of law to one of the plaintiffs on his claim for severance pay in the amount of $240,000 plus interest. On December 2, 2005, a three-judge panel of the Appellate Division unanimously affirmed the judgment entered in the Law Division in all respects, rejecting both the Company's appeal and the plaintiffs' cross-appeal. On January 23, 2006, the Company sought further appellate review via the filing of a petition for certification of the Appellate Division's judgment in the Supreme Court of New Jersey. The Supreme Court will determine in the first half of 2006 whether to grant or deny the requested review.

In connection with this litigation, the Company accrued $9.7 million of litigation charges at December 31, 2002, which included the jury award of $7.6 million, professional fees of $1.1 million and an estimate of $1.0 million for attorney fees and pre-judgment interest. As of December 31, 2005, the accrued litigation reserve is $8.5 million.

In addition, in November 2002 the Company brought suit in the Superior Court of New Jersey, Law Division, Bergen County, on professional liability claims against the attorneys and law firms who served as its counsel in the above-described acquisition transaction and in its subsequent dealings with the plaintiffs concerning their various relationships with the Company resulting from that transaction. In its lawsuit against the former counsel, the Company is seeking complete indemnification with respect to (1) its costs and counsel fees incurred in defending itself against the claims of the plaintiffs; (2) any sums for which the Company is ultimately determined to be liable to the plaintiffs; and (3) its costs and counsel fees incurred in the prosecution of the legal malpractice action itself. That litigation was temporarily stayed in the Law Division while the appeal of the underlying action went forward in the Appellate Division of the Superior Court. On May 16, 2005, the Law Division lifted that stay and pretrial discovery in the legal malpractice action ensued through September 2005. On September 14, 2005, as a consequence of certain procedural constraints imposed by the court, the Company and the various attorney and law firm defendants agreed to the dismissal of the action in Bergen County and the filing of a new action against the same defendants in the Superior Court of New Jersey, Law Division, Morris County. The complaint in the new action, in which the Company has asserted certain additional claims against the defendants, was filed on October 24, 2005. Discovery proceedings in the new action will be resuming in the first quarter of 2006.

The Company is also subject to other pending legal proceedings and claims that arise from time to time in the ordinary course of its business, which may or may not be covered by insurance.

The litigation and other claims previously noted are subject to inherent uncertainties and management's view of these matters may change in the future. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position and the consolidated results of operations for the period in which the effect becomes reasonably estimable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
RCM Technologies, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of RCM Technologies, Inc. (a Nevada corporation) and Subsidiaries as of December 31, 2005 and January 1, 2005 and the related consolidated statements of operations, changes in stockholders' equity, comprehensive income and cash flows for each of the three years in period ended December 31, 2005 (52 weeks, 53 weeks and 52 weeks, respectively). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RCM Technologies, Inc. and Subsidiaries as of December 31, 2005 and January 1, 2005, and the consolidated results of its operations and its cash flows for each of the fiscal years in the three year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

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

/s/ Grant Thornton LLP
Grant Thornton LLP
Philadelphia, Pennsylvania
March 1, 2006

RCM TECHNOLOGIES, INC. (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEET
December 31, 2005 and January 1, 2005

ASSETS

	December 31, 2005	January 1, 2005
Current assets		
Prepaid expenses and other assets	$7,517	$29,549
Other assets		
Long-term receivables from affiliates	75,802,090	70,020,126
Total assets	$75,809,607	$70,049,675

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2005	January 1, 2005
Current liabilities		
Accounts payable and accrued expenses	$120,982	$104,639
Stockholders' equity		
Common stock	586,413	569,173
Foreign currency translation adjustment	981,772	736,128
Additional paid in capital	100,235,338	98,290,719
Accumulated deficit	(26,114,898)	(29,650,984)
Total stockholders' equity	75,688,625	69,945,036
Total liabilities and stockholders' equity	$75,809,607	$70,049,675

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

RCM TECHNOLOGIES, INC. (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF INCOME
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

	December 31, 2005	January 1, 2005	December 27, 2003
Operating expenses			
Administrative	$1,137,920	$633,198	$464,424
Operating loss	(1,137,920)	(633,198)	(464,424)
Management fee income	1,137,920	633,198	464,424
Income before income in subsidiaries			
Equity in earnings of subsidiaries	3,536,086	2,206,867	2,779,153
Net income	$3,536,086	$2,206,867	$2,779,153

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

RCM TECHNOLOGIES, INC. (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

	December 31, 2005	January 1, 2005	December 27, 2003
Cash flows from operating activities:			
Net income	$3,536,086	$2,206,867	$2,779,153
Adjustments to reconcile net income to Net cash provided by operating activities:			
Recognition of equity compensation			3,828,995
Equity in deficiency in assets of subsidiaries	(3,536,086)	(2,206,867)	(2,779,153)
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	22,032	(384)	(22,656)
Accounts payable and accrued expenses	16,344	10,158	(185,665)
	(3,548,005)	(2,197,093)	841,521
Net cash provided by operating activities	38,376	9,774	3,620,674
Cash flows from investing activities:			
Increase in long-term receivables from subsidiaries	(1,283,879)	(577,847)	(4,936,468)
Net cash used in investing activities	(1,283,879)	(577,847)	(4,936,468)
Cash flows from financing activities:			
Sale of stock for employee stock purchase plan	146,378	176,220	131,415
Exercise of stock options	853,481	212,520	43,500
Net cash provided by financing activities	999,859	388,740	174,915
Effect of exchange rate changes on cash and cash equivalents	245,644	179,333	1,140,879
Net increase in cash and equivalents			
Cash and equivalents at beginning of year			
Cash and equivalents at end of year	$	$	$

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

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, 2005					
Allowance for doubtful accounts on trade receivables	$1,862,000	$276,000		$346,000	$1,792,000
Year Ended January 1, 2005					
Allowance for doubtful accounts on trade receivables	$1,854,000	$436,000		$428,000	$1,862,000
Year Ended December 27, 2003					
Allowance for doubtful accounts on trade receivables	$1,549,000	$692,000		$387,000	$1,854,000

EXHIBIT INDEX

(10) (o) Compensation Arrangements for Named Executive Officers.

(10) (p) Compensation Arrangements for Directors.

(11)	Computation of Earnings Per Share.
(21)	Subsidiaries of the Registrant.
(23)	Consent of Grant Thornton LLP.
31.1	Certification of Chief Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
32.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2003.
32.2	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2003.

RCM TECHNOLOGIES, INC.

Compensation Arrangements for Named Executive Officers

Stanton Remer. Executive Vice President & Chief Financial Officer. The Company on an at-will basis pursuant to an oral agreement employs Mr. Remer. In addition to standard medical, disability, life insurance, 401(k) and employee stock incentive benefits available to all eligible employees, he is eligible for the Executive Medical Supplementary Plan available to the named executive officers, the Executive Stock Option Plan available to officers and key employees and an auto allowance available to certain middle managers and above. Mr. Remer received a base salary of $200,000 in 2005. His bonus is compensated according to a Schedule of Compensation approved by the Compensation Committee on December 17, 1997, pursuant to which the Company pays a bonus of .002 of the Company's EBITDA, defined as earnings before income taxes, depreciation and amortization, on a consolidated basis within 60 days following the close of the fiscal year. A further bonus of .002 of EBITDA is payable to Mr. Remer on a discretionary basis.

Rocco Campanelli. Executive Vice President. The Company on an at-will basis pursuant to an oral agreement employs Mr. Campanelli. In addition to standard medical, disability, life insurance, 401(k) and employee stock incentive benefits available to all eligible employees, he is eligible for the Executive Medical Supplementary Plan available to the named executive officers, the Executive Stock Option Plan available to officers and key employees and an auto allowance available to certain middle managers and above. Mr. Campanelli received a base salary of $175,000 in 2005. His bonus is based on a percentage of divisional Engineering net operating income above certain threshold targets.

Kevin D. Miller. Senior Vice President. The Company on an at-will basis pursuant to an oral agreement employs Mr. Miller. In addition to the standard medical, disability, life insurance, 401(k) and employee stock incentive benefits available to all eligible employees, he is eligible for the Executive Medical Supplementary Plan available to the named executive officers, the Executive Stock Option Plan available to officers and key employees and an auto allowance available to certain middle managers and above. Mr. Miller received a base salary of $200,000 in 2005. He is eligible for a discretionary bonus.

EXHIBIT 10 (p)

RCM TECHNOLOGIES, INC.

Compensation Arrangements for Directors

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

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

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

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

EXHIBIT 11

COMPUTATION OF EARNINGS PER COMMON SHARE
Years Ended December 31, 2005, January 1, 2005 and December 27, 2003

	December 31, 2005	January 1, 2005	December 27, 2003
Diluted earnings			
Net income applicable to common stock	$3,536,086	$2,206,867	$2,779,153
Shares			
Weighted average number of common shares outstanding	11,456,757	11,325,626	10,716,179
Common stock equivalents	274,834	354,186	180,126
Total	11,731,591	11,679,811	10,896,305
Diluted earnings per common share	$.30	$.19	$.26
Basic			
Net income applicable to common stock	$3,536,086	$2,206,867	$2,779,153
Shares			
Weighted average number of common shares outstanding	11,456,757	11,325,626	10,716,179
Basic earnings per common share	$.31	$.19	$.26

EXHIBIT 21

SUBSIDIARIES

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

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
RCM Technologies, Inc.

We have issued our report dated March 1, 2006, accompanying the consolidated financial statements and schedules included in the Annual Report of RCM Technologies, Inc. and Subsidiaries on Form 10-K for the year ended December 31, 2005. We hereby consent to the incorporation by reference of said report in the Registration Statements of RCM Technologies, Inc. on Forms S-8 (File No. 33-61306, effective April 21, 1993, File No. 33-80590, effective June 22, 1994, File No. 333-52206, effective December 19, 2000 and File No. 333-52480, effective December 21, 2000).

/s/ Grant Thornton LLP
Grant Thornton LLP
Philadelphia, Pennsylvania
March 1, 2006

EXHIBIT 31.1

CERTIFICATION

I, Leon Kopyt, certify that:

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

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

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

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

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

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

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

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

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

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

Date: March 23, 2006

/s/ Leon Kopyt

Leon Kopyt
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Stanton Remer, certify that:

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

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

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

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

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

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

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

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

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

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

Date: March 23, 2006

/s/ Stanton Remer

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

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of RCM Technologies, Inc. (the "Company") for the year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leon Kopyt, President & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

/s/ Leon Kopyt

Leon Kopyt
Chief Executive Officer
March 23, 2006

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

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of RCM Technologies, Inc. (the "Company") for the year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanton Remer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

/s/ Stanton Remer

Stanton Remer
Executive Vice President
Chief Financial Officer
March 23, 2006

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