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

# FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 27, 2008**

**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**<br>(State or Other Jurisdiction of Incorporation or Organization) | **95-1480559**<br>(I.R.S. Employer Identification No.) |
| **2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey**<br>(Address of Principal Executive Offices) | **08109-4613**<br>(Zip Code) |

Registrant's telephone number, including area code: **(856) 356-4500**

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| **Common Stock, par value $0.05 per share** | The NASDAQ Stock Market LLC |

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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 ☒ 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. ☒

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer ☐ | Accelerated Filer ☐ | Non-Accelerated Filer ☐<br>(Do not check if a smaller reporting company) | Smaller Reporting Company ☒ |

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $52,668,000 based upon the closing price of $4.31 per share of the registrant's common stock on June 27, 2008 on The NASDAQ Global Market. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from the figure is an affiliate or that any person whose holdings are included is not an affiliate and any such admission is hereby disclaimed. The information provided is included solely for record keeping purposes of the Securities and Exchange Commission.

The number of shares of registrant's common stock (par value $0.05 per share) outstanding as of March 23, 2009: 12,813,522.

**Documents Incorporated by Reference**

Portions of the definitive proxy statement for the registrant's 2009 Annual Meeting of Stockholders (the "2009 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 2009 Proxy Statement is not filed by April 26, 2009, 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**

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# PART I

## Private Securities Litigation Reform Act Safe Harbor Statement

Certain statements included herein and in other reports and public filings made by RCM Technologies, Inc. (“RCM” or the “Company”) are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements regarding the adoption by businesses of new technology solutions; the use by businesses of outsourced solutions, such as those offered by the Company in connection with such adoption; and the outcome of litigation (at both the trial and appellate levels) involving the Company. Readers are cautioned that such forward-looking statements, as well as others made by the Company, which may be identified by words such as “may,” “will,” “expect,” “anticipate,” “continue,” “estimate,” “project,” “intend,” “believe,” and similar expressions, are only predictions and are subject to risks and uncertainties that could cause the Company’s actual results and financial position to differ materially from such statements. Such risks and uncertainties include, without limitation: (i) unemployment and general economic conditions affecting the provision of information technology and engineering services and solutions and the placement of temporary staffing personnel; (ii) the Company’s ability to continue to attract, train and retain personnel qualified to meet the requirements of its clients; (iii) the Company’s ability to identify appropriate acquisition candidates, complete such acquisitions and successfully integrate acquired businesses; (iv) uncertainties regarding pro forma financial information and the underlying assumptions relating to acquisitions and acquired businesses; (v) uncertainties regarding amounts of deferred consideration and earnout payments to become payable to former shareholders of acquired businesses; (vi) adverse effects on the market price of the Company’s common stock due to the potential resale into the market of significant amounts of common stock; (vii) the adverse effect a potential decrease in the trading price of the Company’s common stock would have upon the Company’s ability to acquire businesses through the issuance of its securities; (viii) the Company’s ability to obtain financing on satisfactory terms; (ix) the reliance of the Company upon the continued service of its executive officers; (x) the Company’s ability to remain competitive in the markets that it serves; (xi) the Company’s ability to maintain its unemployment insurance premiums and workers compensation premiums; (xii) the risk of claims being made against the Company associated with providing temporary staffing services; (xiii) the Company’s ability to manage significant amounts of information and periodically expand and upgrade its information processing capabilities; (xiv) the Company’s ability to remain in compliance with federal and state wage and hour laws and regulations; (xv) uncertainties in predictions as to the future need for the Company’s services; (xvi) uncertainties relating to the allocation of costs and expenses to each of the Company’s operating segments; (xvii) the costs of conducting and the outcome of litigation involving the Company, (xviii) obligations relating to indemnities and similar agreements entered into in connection with the Company’s business activities, and (xix) 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 Technologies is a premier provider of business and technology solutions designed to enhance and maximize the operational performance of its customers through the adaptation and deployment of advanced information technology and engineering services. RCM has been an innovative leader in the design, development, and delivery of these services to commercial and government sectors for more than 35 years. Over the years, the Company has developed and assembled an attractive, diverse and extensive portfolio of capabilities, service offerings and delivery options, established a proven record of performance and credibility, and built an efficient pricing structure. This combination offers clients a compelling value proposition with the potential to substantially accelerate the successful attainment of their business objectives.

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

The Company services some of the largest national and international companies in North America as well as a lengthy roster of Fortune 1000 and mid-sized businesses in such industries as Aerospace/Defense, Energy, Financial Services, Life Sciences, Manufacturing & Distribution, the Public Sector and Technology. RCM believes it offers a range of solutions that fosters long-term client relationships, affords cross-selling opportunities, and minimizes the Company's dependence on any single technology or industry sector. RCM sells and delivers its services through a network of 35 offices in selected regions throughout North America.

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

During the year ended December 27, 2008, approximately 49.4% of RCM's total revenues were derived from IT services, 28.3% from Engineering services, and the remaining 22.3% from Commercial services.

Demand for the Company's services can be significantly impacted by changes in the general level of economic activity and particularly technology spending. During periods of reduced economic activity, such as the environment in the United States and the world in general since approximately mid-2007 and continuing into 2009, the Company may also be subject to increased competition and pricing pressure in its markets. Extended periods of weakness in the economy can have a material adverse impact on the Company's business and results of operations.

**Industry Overview**

Businesses today face intense competition, the challenge of constant technological change and the ongoing need for business process optimization. To address these issues and to compete more effectively, companies are continually evaluating the need for implementing innovative solutions to upgrade their systems, applications, and processes. As a result, the ability of an organization to integrate and align advanced technologies with new business objectives is critical.

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

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

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

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

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

Meanwhile, the general economy of the United States over the past several years has negatively affected temporary staffing businesses which are providers of light industrial and clerical help. Generally, demand for lower-skilled workers is weakened in a general economy that is in a downward cycle.

**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**

Promote Full Life Cycle Solution Capability

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

The Company believes that the effective execution of this strategy will generate improved margins on the existing resources. The completion of this service-offering continuum is intended to afford the Company the opportunity to strengthen long-term client relationships that will further contribute to a more predictable revenue stream.

In addition to a full life cycle solution offering, the Company continues to focus on transitioning into higher value oriented services in an effort to increase its margins on its various service lines (relative to lower value services) and generate revenue that is more sustainable. The Company believes this transition is accomplished by pursuing additional vertical market specific solutions in conjunction or combination with longer-term based solutions, through expansion of its client relationships and by pursuing strategic alliances and partnerships.

Achieve Internal Growth

The Company continues to promote 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 orientation program in which sales managers and professionals receive relevant information about company operations.

RCM has adopted an industry-centric approach to sales and marketing. This initiative contemplates 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.

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**

Develop and Maintain Strong Customer Relationships

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

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

Attract and Retain Highly Qualified Consultants and Technical Resources

The Company believes it has been successful in attracting and retaining qualified consultants and contractors by (i) providing stimulating and challenging work assignments, (ii) offering competitive wages, (iii) effectively communicating with its candidates, (iv) providing selective 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 realize savings and synergies and to control and monitor its operations efficiently, as well as to quickly integrate new acquisitions. It also allows local branches to focus more on growing their local operations.

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

**Information Technology**

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

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

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

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

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

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

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

As of December 27, 2008, the Company had assigned approximately 780 information technology employees and consultants to its customers.

**Engineering**

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

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

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

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

As of December 27, 2008, the Company had assigned approximately 450 engineering and technical employees and consultants to its customers.

**Commercial**

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

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

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

As of December 27, 2008, the Company had assigned approximately 410 specialty health care and 490 general support services personnel to its customers.

**Branch Offices**

The Company's organization consists of 35 branch offices located in the United States, Puerto Rico and Canada. The locations and services of each of the branch offices are set forth in the table below.

| LOCATION | NUMBER OF OFFICES | SERVICES PROVIDED(1) |
|---|---|---|
| USA | | |
| California | 9 | IT, C |
| Connecticut | 2 | E |
| Florida | 1 | C |
| Maryland | 1 | IT |
| Michigan | 4 | IT, E |
| Minnesota | 1 | IT |
| Missouri | 1 | IT |
| New Jersey | 3 | IT, E |
| New York | 2 | IT, E, C |
| Ohio | 1 | IT |
| Pennsylvania | 1 | C |
| Rhode Island | 1 | E |
| Texas | 2 | IT |
| Wisconsin | 2 | IT, E |
| | 31 | |
| PUERTO RICO | 1 | IT |
| CANADA | 3 | IT, E |

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

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

The Company is domiciled in the United States and its segments operate in the United States and Canada. Revenues for the year ended December 27, 2008 and Goodwill and Intangible Assets by geographic area as of December 27, 2008 are as follows (in thousands):

| | Revenues | Goodwill | Intangible Assets |
|---|---|---|---|
| United States | $ 188,672 | $ 6,538 | $ 276 |
| Canada | 20,605 | — | — |
| | $ 209,277 | $ 6,538 | $ 276 |

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

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

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

**Sales and Marketing**

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

The Company's larger representative customers include 3M, ADP, BancTec, Bristol Myers Squibb, Bruce Power, Entergy, FlightSafety International, Lilly del Caribe, Microsoft, MSC Industrial Supply, New York City Department of Education, Ontario Power Group, Schering Plough, United Technologies, U.S. Department of the Treasury, Wyeth and Wells Fargo. The Company serves Fortune 1000 companies and many middle market clients. The Company's relationships with these customers are typically formed at the customers' local or regional level and from time to time, when appropriate, at the corporate level for national accounts.

During 2008, United Technologies accounted for 11.1% of the Company's revenues. No other customer accounted for 10% or more of the Company's revenues. The Company's five, ten and twenty largest customers accounted for approximately 27.1%, 33.5% and 44.0%, respectively, of the Company's revenues for 2008.

**Recruiting and Training**

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

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

**Information Systems**

The Company 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 is hosted on Windows 2003 enterprise server operating system and on multi redundant Dell PowerEdge servers. The branch offices of the Company are networked to the corporate offices via private circuits, which enable 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 has Autotime, an automated time and attendance system, which augments the ERP application by catering to the needs of its diverse business offerings and distributed workforce. The system is housed on a three-tiered architecture on DELL PowerEdge 1800 servers and is currently deployed in the Canadian division.

The Company has migrated its Recruiting (e.g. Candidate) and Sales (e.g. Requirement) Tracking to JobDiva, an application service provider (ASP) solution. The integrated solution allows RCM to track all client requirements on an enterprise level. The solution further permits RCM to search multiple sources (e.g. job boards) to identify and match suitable candidates for an opportunity or need. This solution allows RCM to build and maintain a proprietary database of prequalified candidates, thereby enhancing our ability to respond to client demands. Furthermore, the solution increases visibility internally to sales personnel and the management team to manage client priorities no longer on a localized but a national basis. Customized reporting and query capabilities allow RCM management to monitor personnel performance and client responsiveness. All data and information is accessible via the web.

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

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

RCM has upgraded its perimeter network and WAN architecture to a secure centralized model on Private Network Transport (PNT) AT&T circuits, utilizing Multiple Packet Label Switching (MPLS) transport protocol. The hub datacenter at its operational headquarters has been outfitted with redundant fiber circuits from AT&T and Optimum Lightpath utilizing Border gateway Protocol (BGP) for automatic failover. In addition, redundant firewalls, routers and switching architecture should protect against hardware failure.

The move to service oriented architecture facilitated the implementation of the Cisco Voice over IP (VOIP) solution which is currently deployed throughout RCM’s offices. This enterprise solution, based on Cisco Call Manager, Unity voicemail, Mobility Manager, Meeting Place, Fax Server and Video Presence will, when completed, unify all RCM offices in the US and Canada. Summary of benefits include four digit extension calls between RCM offices, email and voicemail unification, soft and mobile phone integration, video and web conferencing, central and email enabled faxing.

The above initiatives have contributed to improved communication within RCM and also to its clients.

**Other Information**

Safeguards - Business, Disaster and Contingency Planning

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

Given the significant amount of data generated in the Company’s key processes including recruiting, sales, payroll and customer invoicing, RCM has established redundant procedures, functioning on a daily basis, within the Company’s primary data center. This redundancy should mitigate 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 tape storage at an independent facility. Besides the local tape backup rotation of branch office systems, data is also replicated to SAN devices in Parsippany to achieve business continuity. 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 and Cisco for RCM’s data circuits and network devices, guarantee minimal outages as well as network redundancy and scalability. The Disaster Recovery site, located at the corporate office in Pennsauken, NJ, provides WAN, ERP and messaging services should the primary data center facility at Parsippany, NJ, become inoperable.

Safeguards - Business, Disaster and Contingency Planning (Continued)

The Company’s ability to protect its data assets against damage from fire, power loss, telecommunications failures, and facility violations is critical. The Company uses Postini mail management service to filter all emails destined for the RCMT domain before being delivered to the corporate mail servers. Websense, web filtering has also been deployed to safeguard the enterprise from malicious internet content. The deployment of virus, spam, and patch management controls extends from the perimeter network to all desktops and is centrally monitored and managed. In addition to the virus and malware controls, an Intrusion Protection System (IPS) monitors and alerts on changes in network traffic patterns as well as known hostile signatures.

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

**Competition**

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

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

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

**Seasonality**

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

**Employees**

As of December 27, 2008, 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 27, 2008, there were approximately 780 information technology and 450 engineering and technical employees and consultants assigned by the Company to work on client projects for various periods. As of December 27, 2008, there were approximately 410 specialty health care and 490 general support services employees and consultants. None of the Company’s employees is represented by a collective bargaining agreement. The Company considers its relationship with its employees to be good.

**Access to Company Information**

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

RCM makes available on its website or by responding free of charge to requests addressed to the Company’s Corporate Secretary, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed by the Company with the SEC pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. These reports are available as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The Company’s website is http://www.rcmt.com. The information contained on the Company’s website, or on other websites linked to the Company’s website, is not part of this document. Reference herein to the Company’s website is an inactive text reference only.

RCM has adopted a Code of Conduct applicable to all of its directors, officers and employees. In addition, the Company has adopted a Code of Ethics, within the meaning of applicable SEC rules, applicable to its Chief Executive Officer, Chief Financial Officer and Controller. Both the Code of Conduct and Code of Ethics are available, free of charge, by sending a written request to the Company’s Corporate Secretary. If the Company makes any amendments to either of these Codes (other than technical, administrative, or other non-substantive amendments), or waive (explicitly or implicitly) any provision of the Code of Ethics to the benefit of our Chief Executive Officer, Chief Financial Officer or Controller, it intends to disclose the nature of the amendment or waiver, its effective date and to whom it applies in the investor relations portion of the website, or in a report on Form 8-K filed with the SEC.

## 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 recent global economic crisis has caused, among other things, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. Any or all of these developments could negatively affect our business, operating results or financial condition in a number of ways. For example, current or potential customers may be unable to fund capital spending programs, new product launches or other similar activities on which they might otherwise use us, and therefore delay, decrease or cancel purchases or our services or not pay us or to delay paying us for previously purchased services. In addition, financial institution failures may cause us to incur increased expenses or make it more difficult either to utilize our existing debt capacity or otherwise obtain financing for our operations, investing activities (including the financing of any future acquisitions), or financing activities.

### Government Regulations

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

### Highly Competitive Business

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

### Events Affecting our Significant Customers

As disclosed in Item 1, "Business," our five, ten and twenty largest customers accounted for approximately 27.1%, 33.5% and 44.0%, respectively, of our revenues for 2008. Some of these customers may be affected by the current state of the economy or developments in the credit markets. For example, United Technologies, which accounted for 11.1% of the Company's revenues in 2008, announced on March 10, 2009 that it had reduced its 2009 profit forecast 13 % and will eliminate 11,600 jobs, or 5% of its global work force. In addition, our customers may engage in mergers or similar transactions; for example, Wyeth recently announced that it expects to be acquired by Pfizer, and Schering Plough, recently announced that it expects to be acquired by Merck. Should any of our significant customers experience a downturn in its business that weakens its financial condition or merge with another company or otherwise cease independent operation, it is possible that the business that the customer does with us would be reduced or eliminated, which could adversely affect our financial results.

Additionally, the Company estimates to its best ability that the automobile and financial services industries each represented approximately 3.7% or 7.5% combined of the Company's total revenues in 2008. The automobile and financial services industries are two industries that have been severely impacted by recent national and global economic malaise.

**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.

**Revolving Credit Facility and Liquidity**

If we are unable to borrow under our Revolving Credit Facility, it may adversely affect our liquidity, results of operations and financial condition. Our liquidity depends on our ability to generate sufficient cash flows from our operations and, from time to time, borrowings under our Revolving Credit Facility with our agent lender Citizens Bank of Pennsylvania. The Company believes that Citizens Bank is liquid and is not aware of any current risk that they will become illiquid. At December 27, 2008, we had outstanding borrowings under the Revolving Credit Facility of $4.9 million, and letters of credit outstanding for $1.6 million.

The Revolving Credit Facility contains various financial and non-financial covenants. At December 27, 2008, we were in compliance with the covenants and other provisions of the Credit Facility. Any failure to be in compliance could have a material adverse effect on our liquidity, results of operations and financial condition.

**Goodwill and Intangible Impairments May Have an Adverse Effect on our Financial Statements**

As of December 27, 2008, we had $6.5 million of goodwill and $0.3 million intangible assets on our balance sheet, which represents 8.6% of our total assets. Goodwill represents the premium paid over the fair value of the net tangible and intangible assets we have acquired in business combinations. SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142") requires the Company to perform a goodwill and intangible asset impairment test on at least an annual basis. Application of the goodwill and intangible asset 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 and intangible asset impairment for each reporting unit. The Company conducts its annual goodwill and intangible asset impairment test as of the last day of the Company's fiscal November each year, or more frequently if indicators of impairment exist. We periodically analyze whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower than expected growth rates, among others. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill and intangible assets. Future changes in our industries could impact the results of future annual impairment tests. There can be no assurance that future tests of goodwill and intangible asset impairment will not result in impairment charges. If we are required to write down goodwill or intangible assets, the related charge could materially reduce reported net income or result in a net loss for the period in which the write down occurs.

**Workers' Compensation and Employee Medical Insurance**

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

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

The Company may be subject to claims by our clients related to errors and omissions, misuse of proprietary information, discrimination and harassment, theft and other criminal activity, malpractice, and other claims stemming from the improper activities or alleged activities of our temporary professionals. There can be no assurance that our current liability insurance coverage will be adequate or will continue to be available in sufficient amounts to cover damages or other costs associated with such claims.

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

**Our Acquisitions May Not Succeed**

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

**Foreign Currency Fluctuations and Changes in Exchange Rates**

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

**Trademarks**

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

**Data Center Capacity and Telecommunication Links**

Uninterruptible Power Supply (UPS), card key access, fire suppression, and environmental control systems protect RCM's datacenter. All systems are monitored on a 24/7 basis with alerting capabilities via voice or email. The telecommunications architecture at RCM utilizes managed private circuits from AT&T, which encompasses provisioning redundancy and diversity.

RCM's ability to protect its data center against damage from fire, power loss, telecommunications failure and other disasters is critical to business operations. 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.

RCM's ability to protect its data, provide services and safeguard its installations, as it relates to the IT infrastructure, is in part dependent on several outside vendors with whom the Company maintains service level agreements.

**Accrued Bonuses**

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

**Litigation**

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

## ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 2. PROPERTIES

The Company provides specialty professional consulting services, principally performed at various client locations, through 35 administrative and sales offices located in the United States, Puerto Rico, and Canada. The majority of the Company's offices typically consist of 1,000 to 6,000 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 $13.89 per square foot per annum for a term ending on January 31, 2011.

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

## ITEM 3. LEGAL PROCEEDINGS

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

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

There were no matters submitted to a vote of security holders during the quarter ended December 27, 2008.

## PART II

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

Shares of the Company's common stock are traded on The NASDAQ Global Market under the Symbol "RCMT." The following table sets forth approximate high and low sales prices for the two years in the period ended December 27, 2008 as reported by The NASDAQ Global Market:

| | Common Stock | |
|---|---|---|
| | High | Low |
| **Fiscal 2007** | | |
| First Quarter | $ 7.90 | $ 5.75 |
| Second Quarter | 8.80 | 5.86 |
| Third Quarter | 10.30 | 6.47 |
| Fourth Quarter | $ 8.36 | $ 4.93 |
| **Fiscal 2008** | | |
| First Quarter | $ 6.51 | $ 3.82 |
| Second Quarter | 4.81 | 3.75 |
| Third Quarter | 4.57 | 2.00 |
| Fourth Quarter | $ 2.24 | $ 0.77 |

**Holders**

As of February 12, 2009, the approximate number of holders of record of the Company's Common Stock was 513. Based upon the requests for proxy information in connection with the Company's 2008 Annual Meeting of Stockholders, the Company believes the number of beneficial owners of its Common Stock is approximately 2,512.

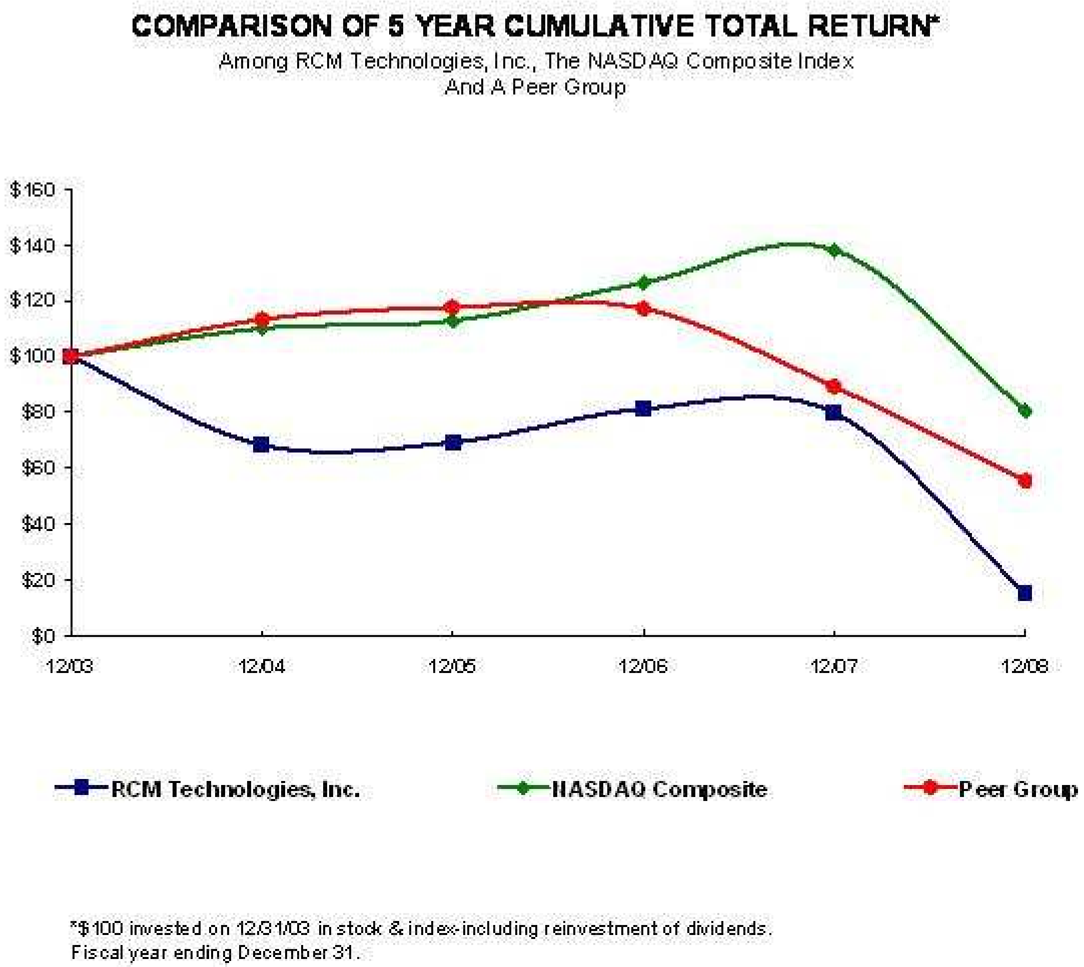
**Dividends**

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.

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURNS**

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

The following graph compares the cumulative 5-year total return provided shareholders on RCM Technologies, Inc.'s common stock relative to the cumulative total returns of the NASDAQ Composite index, and a customized peer group of four companies that includes: Butler International, Kelly Services Inc, MPS Group Inc and Spherion Corp. Management believes this peer group conducts its business operations in the same industry group as RCM Technologies, Inc. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in the peer group, and the index on December 31, 2003 and its relative performance is tracked through December 31, 2008.




| Total Return Analysis | 12/03 | 12/04 | 12/05 | 12/06 | 12/07 | 12/08 |
|---|---|---|---|---|---|---|
| RCM Technologies, Inc. | $ 100.00 | $ 68.25 | $ 69.19 | $ 81.26 | $ 79.77 | $ 15.06 |
| NASDAQ Composite | $ 100.00 | $ 110.08 | $ 112.88 | $ 126.51 | $ 138.13 | $ 80.47 |
| Peer Group | $ 100.00 | $ 113.31 | $ 117.74 | $ 117.17 | $ 89.17 | $ 55.39 |

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## ITEM 6. SELECTED FINANCIAL DATA

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

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | December 27, 2008 | December 29, 2007 | December 30, 2006 | December 31, 2005 | January 1, 2005(2) |
| **Income Statement** | | | | | |
| Revenues | $ 209,277 | $ 214,209 | $ 201,920 | $ 180,618 | $ 169,277 |
| Gross profit | 53,975 | 52,976 | 50,508 | 42,683 | 40,974 |
| (Loss) income before charges listed below | (1,671) | 7,500 | 7,622 | 3,593 | 4,412 |
| Amortization, net of tax | (460) | (320) | (310) | (57) | (41) |
| Goodwill and intangible asset impairment, net of tax | (37,574) | — | — | — | (2,164) |
| Stock based compensation, net of tax | (100) | (411) | (956) | — | — |
| Net (loss) income | $ (39,805) | $ 6,769 | $ 6,356 | $ 3,536 | $ 2,207 |
| **Earnings Per Share (1)** | | | | | |
| Net (loss) income: | | | | | |
| Basic | $ (3.15) | $ .57 | $ .54 | $ .31 | $ .19 |
| Diluted | $ (3.15) | $ .54 | $ .53 | $ .30 | $ .19 |

| | December 27, 2008 | December 29, 2007 | December 30, 2006 | December 31, 2005 | January 1, 2005(2) |
|---|---|---|---|---|---|
| **Balance Sheet** | | | | | |
| Working capital | $ 42,687 | $ 43,541 | $ 38,844 | $ 33,032 | $ 29,545 |
| Total assets | 78,841 | 109,714 | 100,040 | 106,773 | 99,388 |
| Long term liabilities | — | — | — | — | — |
| Total liabilities | 23,490 | 17,666 | 16,647 | 31,084 | 29,443 |
| Stockholders' equity | $ 55,351 | $ 92,048 | $ 83,393 | $ 75,689 | $ 69,945 |

(1) Shares used in computing earnings per share:

| | | | | | |
|---|---|---|---|---|---|
| Basic | 12,647,127 | 11,970,042 | 11,773,601 | 11,456,757 | 11,325,626 |
| Diluted | 12,647,127 | 12,484,639 | 12,034,665 | 11,731,591 | 11,679,812 |

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

After pro forma adjustments to remove the impact of two acquisitions in its Information Technology segment completed in 2008, RCM experienced a significant decline in its 2008 revenues and gross profit as compared to 2007, particularly in its Information Technology and Engineering segments. RCM believes the decline in its Information Technology pro forma revenues was principally due to a deterioration of overall economic conditions in its geographic markets and industry verticals served in 2008. The principal reason for the decline in 2008 Engineering revenues as compared to 2007 was due to the loss of a major customer.

Over the years, RCM has developed and assembled an attractive portfolio of capabilities, established a proven record of performance and credibility and built an efficient pricing structure. The Company is committed to optimizing its business model as a single-source premier provider of business and technology solutions with a strong vertical focus offering an integrated suite of services through a global delivery platform.

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

Nonetheless, the Company continues to believe that businesses must implement more advanced IT and engineering solutions to upgrade their systems, applications and processes so that they can maximize their productivity and optimize their performance in order to maintain a competitive advantage. Although working under budgetary, personnel and expertise constraints, companies are driven to support increasingly complex systems, applications, and processes of significant strategic value. This has given rise to a demand for outsourcing. The Company believes that its current and prospective clients are continuing to evaluate the potential for outsourcing business critical systems, applications, and processes.

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

The majority of the Company's services are provided under purchase orders. Contracts are utilized on certain of the more complex assignments where the engagements are for longer terms or where precise documentation on the nature and scope of the assignment is necessary. Although contracts normally relate to longer-term and more complex engagements, they do not obligate the customer to purchase a minimum level of services and are generally terminable by the customer on 60 to 90 days' notice. The Company, from time to time, enters into contracts requiring the completion of specific deliverables. Typically these contracts are for less than one year. The Company recognizes revenue on these deliverables at the time the client accepts and approves the deliverables.

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

**Critical Accounting Policies**

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

**Revenue Recognition**

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

*Project Services* - The Company recognizes revenues in accordance with the Securities and Exchange Commission, Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB 104") which clarifies application of U.S. generally accepted accounting principles to revenue transactions. Project services are generally provided on a cost-plus-fixed-fee or time-and-material basis. Typically, a customer will outsource a discrete project or activity and the Company assumes responsibility for the performance of such project or activity. The Company recognizes revenues and associated costs on a gross basis as services are provided to the customer and costs are incurred using its employees. The Company, from time to time, enters into contracts requiring the completion of specific deliverables. The Company recognizes revenue on these deliverables at the time the client accepts and approves the deliverables. In instances where project services are provided on a fixed-price basis and the contract will extend beyond a 12-month period, revenue is recorded in accordance with the terms of each contract. In some instances, revenue is billed and recorded at the time certain milestones are reached, as defined in the contract. In other instances, revenue is billed and recorded based upon contractual rates per hour. In addition, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when the contract is completed and the revenue is reasonably certain of collection. Some contracts also limit revenues and billings to maximum amounts. Provision for contract losses, if any, is made in the period such losses are determined. For contracts where there are multiple deliverables and the work has not been 100% complete on a specific deliverable, the costs have been deferred. The associated costs are expensed when the related revenue is recognized.

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

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

**Accounts Receivable**

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

The Company's accounts receivable allowance for doubtful accounts decreased by approximately $0.6 million to $0.9 million as of December 27, 2008 from $1.6 million as of December 29, 2007. The primary reason for this decrease was that the Company believes its accounts receivable balance before allowance for doubtful accounts as of December 27, 2008 was more certain than the accounts receivable balance before allowance for doubtful accounts as of December 29, 2007. The Company experienced write-offs of accounts receivable in 2008, excluding the write-off of the note receivable of $6.1 million described below, of $2.2 million as compared to $0.7 million in 2007. Due to the increased write-offs of accounts receivable in 2008, a lower allowance for doubtful accounts was required so consequently $0.6 million of those write-offs were charged to accounts receivable allowance for doubtful accounts. Bad debt expense, excluding the write-off of the note receivable of $6.1 million described below, was $1.6 million in 2008 as compared to $0.6 million in 2007.

On February 26, 2008, the Company accepted a promissory note from a customer for $7.5 million in payment of a like amount of accounts receivable from that customer. The customer paid $1.4 million through April 30, 2008 at which point management of the Company concluded that the customer was going to default on its May 1, 2008 installment payment. The Company has since determined that the note receivable is not collectible. Therefore, the Company wrote off this note receivable in the amount of $6.1 million.

**Goodwill**

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets we have acquired in business combinations. SFAS No. 142 “Goodwill and Other Intangible Assets” (“SFAS 142”) requires the Company to perform a goodwill and intangible asset impairment test on at least an annual basis. Application of the goodwill and intangible asset 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 and intangible asset impairment for each reporting unit. The Company conducts its annual goodwill and intangible asset impairment test as of the last day of the Company’s fiscal November each year, or more frequently if indicators of impairment exist. We periodically analyze whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower expected growth rates, among others. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill and intangible assets.

During 2008, the Company incurred goodwill and intangible asset impairment expense of $43.3 million. The reduction in the value of goodwill and intangible assets is primarily attributed to reduced expectations for future cash flows in the impacted reporting units. The reduced expected cash flows resulted in a lower discounted cash flow calculation as compared to prior year’s goodwill and intangible asset impairment tests. The Company reduced expectations for future cash flows due primarily to a weakened general economy and uncertainty as to the demand for our reporting unit services. Goodwill at December 27, 2008 and December 29, 2007 was $6.5 million and $39.6 million, respectively. Intangible assets at December 27, 2008 and December 29, 2007 was $0.3 million. See Footnote 5 to the Financial Statements for a further explanation. Future changes in our industries could impact the results of future annual impairment tests. There can be no assurance that future tests of goodwill and intangible asset impairment will not result in impairment charges.

**Long-Lived and Intangible Assets**

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

**Accounting for Stock Options**

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

Effective as of January 1, 2006, the Company adopted SFAS 123R “Share Based Payment” (“SFAS 123R”). SFAS 123R requires that the compensation cost relating to stock-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. SFAS 123R covers a wide range of stock-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee stock purchase plans.

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

Since the Company adopted SFAS 123R, effective January 1, 2006, using the modified-prospective transition method, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as of the beginning of the period of adoption. The Company measures stock-based compensation cost using the Black-Scholes option pricing model.

**Accounting for Income Taxes**

In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance, and estimates of future earnings. As of December 27, 2008, the Company had total net deferred tax assets of $6.6 million, primarily representing deferred benefits from the impairment of goodwill and intangible assets, operating loss carryforwards and alternative minimum tax carryforwards and the tax effect of an allowance for doubtful accounts. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

The Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), on January 1, 2007. The Company recognized no material adjustments in the liability for unrecognized income tax benefits due to the adoption of FIN 48. The Company conducts its operations in multiple tax jurisdictions in the United States and Canada. With limited exceptions, the Company is no longer subject to audits by tax authorities for tax years prior to 2005. At December 27, 2008, the Company did not have any uncertain tax positions.

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

**Accrued Bonuses**

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

**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. When the U.S. and Canadian economies decline, the Company’s operating performance could be adversely impacted. The Company believes that its fiscal discipline, strategic focus on targeted vertical markets and diversification of service offerings provides some insulation from adverse trends. However, declines in the economy could result in the need for future cost reductions or changes in strategy.

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

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

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

| | Year Ended December 27, 2008 | | Year Ended December 29, 2007 | | Year Ended December 30, 2006 | |
|---|---|---|---|---|---|---|
| | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue |
| Revenues | $ 209,277 | 100.0 | $ 214,209 | 100.0 | $ 201,920 | 100.0 |
| Cost of services | 155,302 | 74.2 | 161,233 | 75.3 | 151,412 | 75.0 |
| Gross profit | 53,975 | 25.8 | 52,976 | 24.7 | 50,508 | 25.0 |
| | | | | | | |
| Selling, general and administrative | 46,568 | 22.3 | 41,418 | 19.3 | 41,244 | 20.4 |
| Bad debt - note receivable | 6,090 | 2.9 | | | | |
| Depreciation and amortization | 2,067 | 1.0 | 1,442 | 0.7 | 1,507 | 0.7 |
| Impairment of goodwill and intangible assets | 43,315 | 20.7 | — | — | — | — |
| Total operating expense | 98,040 | 46.8 | 42,860 | 20.0 | 42,751 | 21.1 |
| | | | | | | |
| Operating (loss) income | (44,065) | (21.1) | 10,116 | 4.7 | 7,757 | 3.8 |
| Other (expense) income | (298) | (0.1) | 937 | 0.5 | (287) | (0.1) |
| | | | | | | |
| (Loss) income before income taxes | (44,363) | (21.2) | 11,053 | 5.2 | 7,470 | 3.7 |
| Income taxes (benefit) expense | (4,558) | 2.2 | 4,284 | 2.0 | 1,114 | 0.6 |
| Net (loss) income | $ (39,805) | (19.0) | $ 6,769 | 3.2 | $ 6,356 | 3.1 |
| | | | | | | |
| (Loss) earnings per share | | | | | | |
| Basic: | $ (3.15) | | $ .57 | | $ .54 | |
| Diluted: | $ (3.15) | | $ .54 | | $ .53 | |

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

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. All years presented represent 52 weeks. A 53-week year occurs periodically.

**Year Ended December 27, 2008 Compared to Year Ended December 29, 2007**

***Revenues.*** Revenues decreased 2.3%, or $4.9 million, for the year ended December 27, 2008 as compared to the prior year (the "comparable prior year period"). Revenues increased $4.5 million in the Information Technology ("IT") segment, decreased $11.9 million in the Engineering segment, and increased $2.5 million in the Commercial segment. Management attributes the overall decrease to a weakening of the general economy and the loss of an engineering client, which generated revenue of $18.0 million in the 2007 period as compared to $0 in the 2008 period. Revenues that were attributable to all acquisitions which occurred in the IT segment since December 29, 2007 and were not included in the comparable prior year period were approximately $21.1 million.

***Cost of Services.*** Cost of services decreased 3.7%, or $5.9 million, for the year ended December 27, 2008 as compared to the comparable prior year period. This decrease was primarily due to the decrease in revenues. Cost of services as a percentage of revenues decreased to 74.2% for the year ended December 27, 2008 from 75.3% for the comparable prior year period. This decrease was primarily attributable to decreased revenues in the Engineering segment, which had lower gross margins.

***Selling, General and Administrative.*** Selling, general and administrative ("SGA") expenses increased 12.4%, or $5.2 million, for the year ended December 27, 2008 as compared to the comparable prior year period. The increase in SGA expenses was principally due to the following a) two acquisitions in the Company's Information Technology segment increased SGA expenses by $4.3 million; and b) the Company's bad debt expense, excluding the write-off of the note receivable of $6.1 million described below, increased by $1.0 million. As a percentage of revenues, SGA expenses were 22.3% for the year ended December 27, 2008 as compared to 19.3% for the comparable prior year period. This percentage increase was primarily attributable to additional SGA expenses incurred in connection with two acquisitions subsequent to February 28, 2008 and the increase in bad debt expense combined with decreased revenues overall.

***Bad Debt - Accounts Receivable.*** The Company experienced bad debt charges on accounts receivable, excluding the write-off of the note receivable of $6.1 million described below, of $1.6 million, as compared to $0.6 million in 2007. The large increase in bad debt charges on accounts receivable was principally due to several unusually large write-offs from certain clients offset by a reduction of the Company's accounts receivable – allowance for doubtful accounts. The Company's accounts receivable – allowance for doubtful accounts was $0.9 million as of December 27, 2008 as compared to $1.6 million as of December 29, 2007.

***Bad Debt - Note Receivable.*** On February 26, 2008, the Company accepted a promissory note from a customer for $7.5 million in payment of a like amount of accounts receivable from that customer. The customer paid $1.4 million through April 30, 2008 at which point management of the Company concluded that the customer was going to default on its May 1, 2008 installment payment. The Company has since determined that the note receivable is not collectible. Therefore, the Company wrote off this note receivable in the amount of $6.1 million.

***Goodwill and Intangible Asset Impairment Expense.*** During 2008, the Company experienced goodwill and intangible asset impairment expense of $43.3 million. Goodwill represents the premium paid over the fair value of the net tangible and intangible assets we have acquired in business combinations. SFAS No. 142 “Goodwill and Other Intangible Assets” (“SFAS 142”) requires the Company to perform a goodwill and intangible asset impairment test on at least an annual basis. Application of the goodwill and intangible asset 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 and intangible asset impairment for each reporting unit. The Company conducts its annual goodwill and intangible asset impairment test as of the last day of the Company’s fiscal November each year, or more frequently if indicators of impairment exist. We periodically analyze whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower expected growth rates, among others. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill. Future changes in our industries could impact the results of future annual impairment tests. Goodwill at December 27, 2008 and December 29, 2007 was $6.5 million and $39.6 million, respectively. Intangible assets at December 27, 2008 and December 29, 2007, was $0.3 million. There can be no assurance that future tests of goodwill and intangible asset impairment will not result in impairment charges.

***Depreciation and Amortization.*** Depreciation and amortization increased 43.3%, or $0.7 million, for the year ended December 27, 2008 as compared to the comparable prior year period. This increase was principally attributable to amortization of intangibles incurred from two acquisitions in the 2008 period.

***Other Income (Expense).*** Other income (expense) consists of interest expense, net of interest income and gains and losses on foreign currency transactions and, in 2007, the proceeds from a legal settlement. For the year ended December 27, 2008, actual interest expense and unused credit line fees of $0.3 million were offset by $0.1 million of interest income, which was earned from short-term money market deposits. Interest expense, net increased $0.2 million for the year ended December 27, 2008 as compared to the comparable prior year period. This increase was primarily due to increased borrowing levels associated with the funding of two acquisitions in the 2008 period. The Company realized losses on foreign currency transactions of approximately $0.1 million for the year ended December 27, 2008 as compared to gains on foreign currency transactions of approximately $0.1 million for the comparable prior year period. This change was attributable to unfavorable exchange rates realized during the 2008 period. The proceeds from the legal settlement in 2007 were realized when the Company reached a settlement with one of the law firm defendants resulting in the recovery of $0.8 million (see footnote 15 to the consolidated financial statements).

***Income Tax.*** The Company experienced an income tax benefit of $4.6 million in 2008 as compared to an income tax expense of $4.3 million in 2007. This change was principally attributable to a decrease in income before taxes, which included a $6.1 million bad debt expense on a note receivable and a non tax-deductible impairment of goodwill and intangible assets of $43.3 million for the year ended December 27, 2008. The effective tax rate was a credit of 10.3% for the year ended December 27, 2008 as compared to 38.7% in the comparable prior year period.

***Net Loss.*** During 2008, the Company experienced a net loss of $39.8 million as compared to net income of $6.8 million in 2007. The difference was primarily attributable to the following factors: decreased revenues of $4.9 million, increased selling, general and administrative expenses of $5.2 million, bad debt-note receivable of $6.1 million, goodwill and impairment expense of $43.3 million, offset by an income tax benefit of $5.7 million.

***Segment Discussion (See Footnote 13)***

***Information Technology***

IT revenues of $103.5 million in 2008 increased $4.5 million, or 4.5%, compared to 2007 IT revenues of $99.0 million. The increase in revenue was attributable to two acquisitions in 2008 offset by the weakness in the economy and reduced demand for the Company's IT services. The IT segment EBITDA was $0.9 million for 2008, as compared to $5.9 million for 2007.

***Engineering***

Engineering revenues of $59.3 million in 2008 decreased $11.9 million, or 16.7%, compared to 2007 Engineering revenues of $71.2 million. The decrease in revenue was primarily attributable to the loss of an Engineering client that generated revenue of $18.0 million in the 2007 period. The Engineering segment EBITDA was a negative of $2.2 million EBITDA for 2008, as compared to $3.9 million positive EBITDA for 2007.

***Commercial***

Commercial revenues of $46.6 million in 2008 increased $2.5 million, or 5.6%, compared to 2007 Commercial Services revenues of $44.1 million. The increase in revenues was principally attributable to increased demand for the Company's Healthcare staffing services. The Commercial segment EBITDA was $2.7 million of EBITDA for 2008, as compared to $1.7 million of EBITDA for 2007.

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

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

***Cost of Services.*** Cost of services increased 6.5%, or $9.8 million, for the year ended December 29, 2007 as compared to the comparable prior year period. This increase was primarily due to the increase in revenues. Cost of services as a percentage of revenues increased to 75.3% for the year ended December 29, 2007 from 75.0% for the comparable prior year period.

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

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

***Other Income.*** Other income consisted of interest income, net of interest expense and gains and losses on foreign currency transactions. For the year ended December 29, 2007, actual interest income of $0.1 million was offset by $0.1 million of interest expense. The interest income was principally earned from short-term money market deposits. Interest income, net, increased $0.3 million for the year ended December 29, 2007 as compared to the comparable prior year period. This increase was primarily due to an increase in interest income, and an overall decrease in interest on the line of credit due to fewer borrowings in the current year, as compared to the comparable prior year period. Gains on foreign currency transactions increased $0.1 million because of the strengthening of the Canadian Dollar as compared to the U. S. Dollar during the year ended December 29, 2007. Included in other income was an $0.8 million gain from a legal settlement (see footnote 15 to the financial statements).

***Income Tax.*** Income tax expense increased 284.6%, or $3.2 million, for the year ended December 29, 2007 as compared to the comparable prior year period. The increase was primarily attributable to a reversal of $1.3 million of previously accrued income taxes in the year ended December 30, 2006, which related to the potential repayment of tax benefits associated with previously claimed tax deductions claimed from goodwill impairments. This matter was settled during the year ended December 30, 2006. As a result, the effective tax rate was 38.8% for the year ended December 29, 2007 as compared to 14.9% in the year ended December 30, 2006. The effective income tax rate for 2006 without the $1.3 million reversal would have been 32.3%.

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

***Segment Discussion (See Footnote 13)***

***Information Technology***

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

***Engineering***

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

***Commercial***

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

**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 27, 2008 | Year Ended December 29, 2007 |
|---|---|---|
| Operating Activities | $ (4,807) | $ 8,605 |
| Investing Activities | $ (10,364) | $ (851) |
| Financing Activities | $ 4,344 | $ 993 |

***Operating Activities***

Operating activities used $4.8 million of cash for the year ended December 27, 2008 as compared to $8.6 million provided by operating activities for the comparable 2007 period. The decrease in cash provided by operating activities was primarily attributable to a net loss of $39.8 million, an increase in accounts receivable, an increase in deferred tax assets, an increase in prepaid expenses and other current assets, and a decrease in income taxes payable. These changes were offset by an increase in payroll and withheld taxes, accrued compensation, accounts payable and accrued expenses. The increase in accounts receivable was due primarily to the increase in revenues in the fourth quarter of 2008 of $53.5 million as compared to revenues in the fourth quarter of 2007 of $48.8 million.

***Investing Activities***

Investing activities used $10.4 million for the year ended December 27, 2008 as compared to $0.9 million for the comparable prior year period. The increase in the use of cash for investing activities for 2008 as compared to the comparable 2007 period was primarily attributable to increases in expenditures for property and equipment and in cash used for acquisitions.

***Financing Activities***

In 2008, financing activities principally consisted of the proceeds from borrowing from the line of credit to finance the acquisition of NuSoft Solutions, Inc and MBH Solutions, Inc. (See footnote 5 to the financial statements). In 2007, financing activities principally consisted of the exercise of stock options and issuance of stock for the employee stock purchase plan with an aggregate exercise price of $993,000.

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, which was amended and restated effective February 20, 2009, which now provides for a $15 million revolving credit facility and includes a sub-limit of $5.0 million for letters of credit (the "Revolving Credit Facility"). At December 27, 2008 the loan agreement provided for a $25 million Revolving Credit Facility. Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, or (ii) the agent bank's prime rate. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn.

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

The weighted average interest rates under the Revolving Credit Facility for the year ended December 27, 2008 and December 29, 2007 were 3.82% and 8.25%, respectively. The majority of borrowings in 2008 were subject to alternative (i) LIBOR (London Interbank Offered Rate), plus applicable margin on contracts of 30 days or more. All borrowings in 2007 were short term and borrowed under alternative (ii) the agent bank's prime rate. During the year ended December 27, 2008 and December 29, 2007, the Company's outstanding borrowings ranged from $-0- to $10.5 million and $-0- million to $1.5 million, respectively. At December 27, 2008 and December 29, 2007, there were $4.9 million and $0.0 outstanding borrowings under this facility, respectively. At December 27, 2008, there were letters of credit outstanding for $1.6 million. At December 27, 2008, the Company had availability for additional borrowings under the Revolving Credit Facility of $18.5 million. Upon execution of the amendment to the Company's loan agreement on February 20, 2009, availability on a proforma basis as of December 27, 2008 was reduced to $8.5 million.

The Company anticipates that its primary uses of capital in future periods will be for working capital purposes. Funding for any long-term and short-term capital requirements as well as future acquisitions will be derived from one or more of the Revolving Credit Facility, funds generated through operations or future financing transactions. The Company is subject to legal proceedings and claims that arise from time to time in the ordinary course of its business, which may or may not be covered by insurance. Were an unfavorable final outcome to occur, there exists the possibility of a material adverse impact on our financial position, liquidity, and the results of operations for the period in which the effect becomes reasonably estimable.

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

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

At December 27, 2008, the Company had a deferred tax asset totaling $6.6 million, primarily representing deferred benefits from the impairment of goodwill and intangible assets, operating loss carryforwards and alternative minimum tax carryforwards and the tax effect of an allowance for doubtful accounts. The Company expects to utilize deferred tax assets associated with net operating loss carryforwards of $2.4 million during the 12 months ending December 26, 2009 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 27, 2008 (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) | $ 4,900 | $ 4,900 | $ — | $ — | $ — |
| Operating Lease Obligations | 12,686 | 4,271 | 7,398 | 1,017 | — |
| | | | | | |
| Total | $ 17,586 | $ 9,171 | $ 7,398 | $ 1,017 | $ — |

(1)The Revolving Credit Facility is for $15.0 million and includes a sub-limit of $5.0 million for letters of credit. The agreement expires in August 2011. At December 27, 2008, there were outstanding letters of credit for $1.6 million. As of March 24, 2009, the Company does not anticipate that interest expense in 2009 will be material.

Material Subsequent Event

As of December 27, 2008, the Company was a plaintiff in a material lawsuit as more fully described in Footnote 15 in the Financial Statements. On March 16, 2009 the Company entered into a settlement agreement with the defendants in this lawsuit. The Company expects to receive $9.8 million, $5.9 million net of tax effect, on or before March 31, 2009.

Significant employment agreements are as follows:

Employment Agreement

The Company has an employment agreement with its Chief Executive Officer and President, Leon Kopyt, which currently provides for an annual base salary of $550,000 and other customary benefits. In addition, the agreement provides that Mr. Kopyt's annual bonus be based on EBITDA, defined as earnings before interest, taxes, depreciation and amortization. The agreement expires on February 28, 2010. The agreement is for a rolling term of three years, which automatically extends each year for an additional one-year period on February 28 of each year. The employment agreement is terminable by the Company upon Mr. Kopyt's death or disability, or for "good and sufficient cause," as defined in the agreement.

Termination Benefits Agreement

The Company is party to a Termination Benefits Agreement with its Chief Executive Officer Leon Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (the "Benefits Agreement"). Pursuant to the Benefits Agreement, following a Change in Control (as defined therein), the remaining term of Mr. Kopyt's employment is extended for five years (the "Extended Term"). If Mr. Kopyt's employment is terminated thereafter by the Company other than for cause, or by Mr. Kopyt for good reason (including, among other things, a material change in Mr. Kopyt's salary, title, reporting responsibilities or a change in office location which requires Mr. 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 27, 2008, Mr. Kopyt would have been entitled to cash payments of approximately $4.9 million (representing salary and excise tax payments).

Severance Agreement

The Company is party to a Severance Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (the “Severance Agreement”). The agreement provides for certain payments to be made to Mr. Kopyt and for the continuation of Mr. Kopyt’s employee benefits for a specified time after his service with the Company is terminated other than “for cause,” as defined in the Severance Agreement. Amounts payable to Mr. Kopyt under the Severance Agreement would be offset and reduced by any amounts received by Mr. Kopyt after his termination of employment under his employment agreement and the Benefits Agreement, which are supplemented and not superseded by the Severance Agreement. If Mr. Kopyt had been terminated as of December 27, 2008, then under the terms of the Severance Agreement, and after offsetting any amounts that would have been received under his current employment and termination benefits agreements, he would have been entitled to cash payments of approximately $3.2 million, inclusive of employee benefits.

**Impact of Inflation**

Consulting, staffing, and project services are generally priced based on mark-ups on prevailing rates of pay, and as a result are able to generally maintain their relationship to direct labor costs. Permanent placement services are priced as a function of salary levels of the job candidates.

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

**New Accounting Standards**

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under SFAS No. 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. In February 2008, the FASB issued FASB Staff Position No. 157-2, “Effective Date of FASB Statement No. 157,” to partially defer SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 was effective for the Company on December 30, 2007, except for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value on a recurring basis for which our effective date is December 28, 2008. The adoption of this statement did not have a material effect on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 expands the use of fair value accounting but does not affect existing standards, which require assets and liabilities to be carried at fair value. Under SFAS No. 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and other eligible financial instruments. SFAS No. 159 is effective for the Company as of December 30, 2007.

The Company has elected not to apply the fair value option to measure any of the financial assets and liabilities on its balance sheet not already valued at fair value under other accounting pronouncements. These other financial assets and liabilities are primarily accounts receivable, accounts payable and debt which are reported at historical value. The fair value of these financial assets and liabilities approximate their fair value because of their short duration and in the case of the debt because it carries variable interest rates which are reset frequently.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”). This statement replaces SFAS No. 141, “Business Combinations,” and requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. SFAS No. 141R requires costs incurred to effect the acquisition to be recognized separately from the acquisition as period costs. SFAS No. 141R also requires the acquirer to recognize restructuring costs that the acquirer expects to incur, but is not obligated to incur, separately from the business combination. In addition, SFAS No. 141R requires an acquirer to recognize assets and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. Other key provisions of this statement include the requirement to recognize the acquisition-date fair values of research and development assets separately from goodwill and the requirement to recognize changes in the amount of deferred tax benefits that are recognizable due to the business combination in either income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. With the exception of certain tax-related aspects described above, SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after December 28, 2008.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles* . This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the U.S. The Company does not believe the adoption of SFAS 162 will have a material impact on its results of operations or financial position.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company’s exposure to market risk for changes in interest rates relates primarily to the Company’s investment portfolio and debt instruments, which primarily consist of its Revolving Credit Facility. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of December 27, 2008, the Company’s investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Presently the impact of a 10% (approximately 90 basis points) increase in interest rates on its variable debt (using an incremental borrowing rate) would have a relatively nominal impact on the Company’s results of operations. The Company does not expect any material loss with respect to its investment portfolio.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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

None.

**ITEM 9A(T). CONTROLS AND PROCEDURES**

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

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

Management's Report on Internal Control over Financial Reporting

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

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

**ITEM 9B. OTHER INFORMATION**

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 shall be included in the 2009 Proxy Statement.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 shall be included in the 2009 Proxy Statement.

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

Except as set forth below, the information required by Item 12 shall be included in the 2009 Proxy Statement.

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

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for issuance under equity compensation plans, excluding securities reflected in column (a) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 1,293,900 | $ 4.48 | 699,294 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 1,293,900 | $ 4.48 | 699,294 |

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTORINDEPENDENCE

The information required by Item 13 shall be included in the 2009 Proxy Statement.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 shall be included in the 2009 Proxy Statement.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

**3.** See Item (b) below.

(b) **Exhibits**

| | |
|---|---|
| (3)(a) | Articles of Incorporation, as amended; incorporated by reference to Exhibit 3(a) to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1994. |
| (3)(b) | Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit A to the Registrant's Proxy Statement, dated February 6, 1996, filed with the Securities and Exchange Commission on January 29, 1996. |
| (3)(c) | Certificate of Amendment of Articles of Incorporation; incorporated by reference to Exhibit B to the Registrant's Proxy Statement, dated February 6, 1996, filed with the Securities and Exchange Commission on January 29, 1996. |
| + (3)(d) | Amended and Restated Bylaws. |
| (4)(a) | Registration Rights Agreement, dated March 11, 1996, by and between RCM Technologies, Inc. and the former shareholders of The Consortium; incorporated by reference to Exhibit (c)(2) to the Registrant's Current Report on Form 8-K dated March 19, 1996, filed with the Securities and Exchange Commission on March 20, 1996. |
| *(10)(a) | RCM Technologies, Inc. 1992 Incentive Stock Option Plan; incorporated by reference to Exhibit A to the Registrant's Proxy Statement, dated March 9, 1992, filed with the Securities and Exchange Commission on March 9, 1992. |
| (10)(b) | RCM Technologies, Inc. 1994 Non-employee Director Stock Option Plan; incorporated by reference to the appendix to the Registrant's Proxy Statement, dated March 31, 1994, filed with the Securities and Exchange Commission on March 28, 1994. |
| *(10)(c) | RCM Technologies, Inc. 1996 Executive Stock Option Plan, 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 to the Registrant's Proxy Statement, dated March 3, 2000, filed with the Securities and Exchange Commission on February 28, 2000. |
| *(10)(e) | Second Amended and Restated Termination Benefits Agreement, dated March 18, 1997, between the Registrant and Leon Kopyt; incorporated by reference to Exhibit 10(g) to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-23753), filed with the Securities and Exchange Commission on March 21, 1997. |
| *(10)(f) | Amended and Restated Employment Agreement, dated November 30, 1996, between the Registrant, Intertec Design, Inc. and Leon Kopyt; incorporated by reference to Exhibit 10(g) to the 1996 10-K. |
| (10)(g) | Amended and Restated Loan and Security Agreement, dated May 31, 2002, between RCM Technologies, Inc. and all of its Subsidiaries with Citizens Bank of Pennsylvania, as Administrative Agent and Arranger; incorporated by reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the Securities and Exchange Commission on August 5, 2002 (the "Second Quarter 2002 10-Q"). |

| | |
|---|---|
| *(10)(h) | Severance Agreement, dated June 10, 2002, between RCM Technologies, Inc. and Leon Kopyt; incorporated by reference to Exhibit 10a to the Second Quarter 2002 10-Q. |
| * (10)(i) | Exhibit A to Severance Agreement General Release; incorporated by reference to Exhibit 10b to the Second Quarter 2002 10-Q. |
| (10)(j) | Amendment and Modification to Amended And Restated Loan and Security Agreement, dated December 30, 2002, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 10(k) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission on February 28, 2003, as amended on March 3, 2003 (the "2002 10-K"). |
| (10)(k) | Second Amendment and Modification to Amended And Restated Loan and Security Agreement, dated February 26, 2003, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 10(l) to 2002 10-K). |
| (10)(l) | Third Amendment and Modification to Amended And Restated Loan and Security Agreement, dated October 1, 2003, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 99.H to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the Securities and Exchange Commission on November 6, 2003. |
| (10)(m) | Fourth Amendment and Modification to Amended And Restated Loan and Security Agreement, dated July 23, 2004, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004, filed with the Securities and Exchange Commission on August 5, 2004. |
| (10)(n) | Fifth Amendment and Modification to Amended and Restated Loan and Security Agreement dated August 7, 2006, between RCM Technologies, Inc. and all of its Subsidiaries and Citizens Bank of Pennsylvania as Administrative Agent and Arranger; incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2006 , filed with the Securities and Exchange Commission on August 10, 2006. |
| *(10)(o) | Amendment No. 1, dated December 12, 2007, to the Amended and Restated Employment Agreement, entered into on November 30, 1996, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 12, 2007, filed with the Securities and Exchange Commission on December 12, 2007 (the "December 2007 8-K"). |
| * (10)(p) | Amendment No. 1, dated December 12, 2007, to the Second Amended and Restated Termination Benefits Agreement, made March 18, 1997, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.2 to the December 2007 8-K. |
| * (10)(q) | Amendment No. 1, dated December 12, 2007, to the Severance Agreement, entered into on June 12, 2002, between Leon Kopyt and RCM Technologies, Inc.; incorporated by reference to Exhibit 10.3 to the December 2007 8-K. |
| *(10)(r) | Compensation Arrangements for Named Executive Officers.<br>(Filed herewith) |

| | |
|---|---|
| * (10)(s) | Compensation Arrangements for Directors.<br>(Filed herewith) |
| * (10)(t) | The RCM Technologies, Inc. 2007 Omnibus Equity Compensation Plan; incorporated by reference to Annex A to the Registrant's Proxy Statement, dated April 20, 2007, filed with the Securities and Exchange Commission on April 19, 2007. |
| * (10)(u) | Separation and Release Agreement, dated August 27, 2008; incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated August 21, 2008, filed with the Securities and Exchange Commission on August 27, 2008. |
| (10)(v) | Second Amended and Restated Loan and Security Agreement dated as of February 19, 2009, between RCM Technologies, Inc. and all of its Subsidiaries, Citizens Bank of Pennsylvania as Administrative Agent and Arranger and the Financial Institutions Named therein as Lenders; incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated February 19, 2009, filed with the Securities and Exchange Commission on February 25, 2009. |
| (11) | Computation of Earnings (loss) Share.<br>(Filed herewith) |
| (21) | Subsidiaries of the Registrant.<br>(Filed herewith) |
| (23) | Consent of Grant Thornton LLP.<br>(Filed herewith) |
| 31.1 | Certifications of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.<br>(Filed herewith) |
| 31.2 | Certifications of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.<br>(Filed herewith) |
| 32.1 | Certifications of Chief Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)<br>(Filed herewith) |
| 32.2 | Certifications of Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)<br>(Filed herewith) |

* Constitutes a management contract or compensatory plan or arrangement.
+ Filed herewith.

**SIGNATURES**

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

**RCM Technologies, Inc.**

| | |
|---|---|
| Date: March 3, 2009 | By: /s/ Leon Kopyt<br>**Leon Kopyt**<br>Chairman, President, Chief Executive Officer and Director |
| Date: March 3, 2009 | By: /s/ Kevin D. Miller<br>**Kevin D. Miller**<br>Chief Financial Officer, Treasurer and Secretary |

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

| | |
|---|---|
| Date: March 3, 2009 | /s/ Leon Kopyt<br>**Leon Kopyt**<br>Chairman, President, Chief Executive Officer (Principal Executive Officer) and Director |
| Date: March 3, 2009 | /s/ Kevin D. Miller<br>**Kevin D. Miller**<br>Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer) |
| Date: March 3, 2009 | /s/ Norman S. Berson<br>**Norman S. Berson**<br>Director |
| Date: March 3, 2009 | /s/ Robert B. Kerr<br>**Robert B. Kerr**<br>Director |
| Date: March 3, 2009 | /s/ Lawrence Needleman<br>**Lawrence Needleman**<br>Director |

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**FORM 10-K**

## INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**
**December 27, 2008 and December 29, 2007**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**ASSETS**

| | December 27, 2008 | December 29, 2007 |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 815 | $ 11,642 |
| Accounts receivable, net of allowance for doubtful accounts of $942 and $1,583 in fiscal 2008 and 2007, respectively | 55,770 | 45,468 |
| Long term receivable-current portion | — | 1,893 |
| Prepaid expenses and other current assets | 3,012 | 1,493 |
| Deferred tax assets | 6,580 | 711 |
| Total current assets | 66,177 | 61,207 |
| Property and equipment, at cost | | |
| Equipment and leasehold improvements | 11,278 | 9,407 |
| Less: accumulated depreciation and amortization | 5,692 | 5,178 |
| Net property and equipment | 5,586 | 4,229 |
| Other assets | | |
| Long term receivable | — | 4,216 |
| Deposits | 264 | 125 |
| Goodwill | 6,538 | 39,588 |
| Intangible assets, net of accumulated amortization of $834 and $726 in fiscal 2008 and 2007, respectively | 276 | 349 |
| Total other assets | 7,078 | 44,278 |
| Total assets | $ 78,841 | $ 109,714 |

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

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS — (CONTINUED)**

**December 27, 2008 and December 29, 2007**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**LIABILITIES AND STOCKHOLDERS' EQUITY**

| | December 27, 2008 | December 29, 2007 |
|---|---|---|
| Current liabilities | | |
| Line of credit | $ 4,900 | $ — |
| Accounts payable and accrued expenses | 8,375 | 8,005 |
| Accrued compensation | 8,610 | 7,418 |
| Payroll and withheld taxes | 1,067 | 1,087 |
| Income taxes payable | 538 | 1,156 |
| Total current liabilities | 23,490 | 17,666 |
| Stockholders' equity | | |
| Preferred stock, $1.00 par value; 5,000,000 shares authorized; no shares issued or outstanding | | |
| Common stock, $0.05 par value; 40,000,000 shares authorized; 12,774,026 and 12,058,689 shares issued and outstanding at December 27, 2008 and December 29, 2007, respectively | 639 | 603 |
| Additional paid-in capital | 106,788 | 102,951 |
| Accumulated other comprehensive income | 720 | 1,484 |
| Accumulated deficit | (52,796) | (12,990) |
| | 55,351 | 92,048 |
| Total liabilities and stockholders' equity | $ 78,841 | $ 109,714 |

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

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| Revenues | $ 209,277 | $ 214,209 | $ 201,920 |
| Cost of services(1) | 155,302 | 161,233 | 151,412 |
| Gross profit | 53,975 | 52,976 | 50,508 |
| Operating costs and expenses | | | |
| Selling, general and administrative(2) | 46,568 | 41,418 | 41,244 |
| Bad debt - note receivable | 6,090 | — | — |
| Depreciation | 1,300 | 1,122 | 1,197 |
| Amortization | 767 | 320 | 310 |
| Impairment of goodwill and intangible assets | 43,315 | — | — |
| | 98,040 | 42,860 | 42,751 |
| Operating (loss) income | (44,065) | 10,116 | 7,757 |
| Other (expense) income | | | |
| Interest (expense) income, net | (230) | 59 | (256) |
| (Loss) gain on foreign currency transactions | (75) | 78 | (31) |
| Legal settlement | — | 800 | — |
| Other | 7 | — | — |
| | (298) | 937 | (287) |
| (Loss) income before income taxes | (44,363) | 11,053 | 7,470 |
| Income tax (benefit) expense | (4,558) | 4,284 | 1,114 |
| Net (loss) income | $ (39,805) | $ 6,769 | $ 6,356 |

(1) Includes stock based compensation expense of $45, $22 and $46 for the years ended December 27, 2008, December 29, 2007 and December 30, 2006, respectively.

(2) Includes stock based compensation expense of $55, $389 and $910 for the years ended December 27, 2008, December 29, 2007 and December 30, 2006, respectively.

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

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)**
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| **Basic earnings per share** | | | |
| Net income | $ (3.15) | $ .57 | $ .54 |
| Weighted average number of common shares outstanding | 12,647,127 | 11,970,042 | 11,773,301 |
| **Diluted earnings per share** | | | |
| Net income | $ (3.15) | $ .54 | $ .53 |
| Weighted average number of common and common equivalent shares outstanding | 12,647,127 | 12,484,639 | 12,034,665 |

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 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance, December 31, 2005** | 11,728,261 | $ 586 | $ 100,235 | $ 982 | $ (26,115) | $ 75,688 |
| Issuance of stock under employee stock purchase plan | 33,770 | 2 | 142 | — | — | 144 |
| Exercise of stock options | 60,095 | 3 | 226 | — | — | 229 |
| Translation adjustment | — | — | — | 20 | — | 20 |
| Stock based compensation expense | — | — | 956 | — | — | 956 |
| Net income | — | — | — | — | 6,356 | 6,356 |
| **Balance, December 30, 2006** | 11,822,126 | 591 | 101,559 | 1,002 | (19,759) | 83,393 |
| Issuance of stock under employee stock purchase plan | 28,563 | 1 | 143 | — | — | 144 |
| Exercise of stock options | 208,000 | 11 | 838 | — | — | 849 |
| Translation adjustment | — | — | — | 482 | — | 482 |
| Stock based compensation expense | — | — | 411 | — | — | 411 |
| Net income | — | — | — | — | 6,769 | 6,769 |
| **Balance, December 29, 2007** | 12,058,689 | 603 | 102,951 | 1,484 | (12,990) | 92,048 |
| Issuance of stock under employee stock purchase plan | 15,337 | 1 | 55 | — | — | 56 |
| Translation adjustment | — | — | — | (764) | — | (764) |
| Stock based compensation expense | — | — | 100 | — | — | 100 |
| Acquired companies | 700,000 | 35 | 3,682 | — | — | 3,717 |
| Net loss | — | — | — | — | (39,805) | (39,805) |
| **Balance, December 27, 2008** | 12,774,026 | $ 639 | $ 106,788 | $ 720 | $ (52,796) | $ 55,351 |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| Net (loss) income | $ (39,805) | $ 6,769 | $ 6,356 |
| Foreign currency translation adjustment | (764) | 482 | 20 |
| Comprehensive (loss) income | $ (40,569) | $ 7,251 | $ 6,376 |

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

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net (loss) income | $ (39,805) | $ 6,769 | $ 6,356 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | 2,056 | 1,449 | 1,508 |
| Impairment of goodwill and intangible assets | 43,315 | — | — |
| Gain on disposal of assets | (7) | — | — |
| Provision for allowance on accounts receivable | (641) | (89) | (120) |
| Stock based compensation expense | 100 | 411 | 956 |
| Provision for losses on notes receivable | 6,090 | — | — |
| Deferred taxes | (5,869) | 2,474 | 827 |
| Changes in assets and liabilities, net of acquisitions: | | | |
| Accounts and note receivable | (10,275) | (3,030) | (3,144) |
| Restricted cash | — | — | 8,572 |
| Prepaid expenses and other current assets | (1,582) | 244 | 1,132 |
| Accounts payable and accrued expenses | 906 | 118 | (7,665) |
| Accrued compensation | 1,330 | (780) | 1,086 |
| Payroll and withheld taxes | 38 | (87) | 277 |
| Income taxes payable | (463) | 1,126 | (4,181) |
| Total adjustments | 34,998 | 1,836 | (752) |
| Net cash (used in) provided by operating activities | $ (4,807) | $ 8,605 | $ 5,604 |

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 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| Cash flows from investing activities: | | | |
| Property and equipment acquired | $ (2,667) | $ (625) | $ (1,569) |
| Proceeds from equipment disposal | 25 | — | — |
| (Increase) decrease in deposits | (138) | 33 | 9 |
| Cash paid for acquisitions, net of cash acquired | (7,584) | (259) | (1,840) |
| Net cash used in investing activities | (10,364) | (851) | (3,400) |
| Cash flows from financing activities: | | | |
| Net borrowings (repayments) of line of credit | 4,900 | — | (3,900) |
| Issuance of stock for employee stock purchase plan | 55 | 144 | 144 |
| Exercise of stock options | — | 849 | 229 |
| Net cash provided by (used in) financing activities | 4,955 | 993 | (3,527) |
| Effect of exchange rate changes on cash and cash equivalents | (611) | 446 | 11 |
| Net (decrease) increase in cash and cash equivalents | (10,827) | 9,193 | (1,312) |
| Cash and cash equivalents at beginning of year | 11,642 | 2,449 | 3,761 |
| Cash and cash equivalents at end of year | $ 815 | $ 11,642 | $ 2,449 |
| Supplemental cash flow information: | | | |
| Cash paid for: | | | |
| Interest | $ 192 | $ 162 | $ 723 |
| Income taxes | $ 2,483 | $ 737 | $ 4,060 |

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

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Description of Business and Basis of Presentation***

RCM Technologies, Inc. is a premier provider of business and technology solutions designed to enhance and maximize the operational performance of its customers through the adaptation and deployment of advanced information technology and engineering services. Additionally, the Company provides specialty staffing services through its Commercial Services group. 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 2008, 2007 and 2006 represent the 52 weeks ended December 27, 2008, December 29, 2007 and December 30, 2006, respectively.

***Cash and Cash Equivalents***

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

The Company's cash balances and short-term investments are maintained in accounts held by major banks and financial institutions. At times, these balances may exceed insured amounts. At December 27, 2008 and December 29, 2007, $0.7 million and $3.9 million, respectively, of cash and cash equivalents were held in Canadian banks.

***Fair Value of Financial Instruments***

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

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

### *Property and Equipment*

Property and equipment are stated at cost and are depreciated on the straight-line method at rates calculated to provide for retirement of assets at the end of their estimated useful lives. The Company's ERP software system, installed in 1999 and upgraded in 2004, is being depreciated over fifteen years. The Company's VOIP telephone system, the installation of which was substantially complete at the end of 2008, is being depreciated over seven years. All other hardware and software as well as furniture and office equipment is depreciated over five years. Leasehold improvements are depreciated over the shorter of the estimated life of the asset or the lease term.

### *Goodwill*

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets we have acquired in business combinations. Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142") requires the Company to perform a goodwill and intangible asset impairment test on at least an annual basis. Application of the goodwill and intangible asset 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 and intangible asset impairment for each reporting unit. The Company conducts its annual goodwill and intangible asset impairment test as of the last day of the Company's fiscal November each year, or more frequently if indicators of impairment exist. We periodically analyze whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower expected growth rates, among others. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill. Future changes in the industry could impact the results of future annual impairment tests.

### *Long-Lived Assets*

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

### *Software*

In accordance with the American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), certain costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software. During the years ended December 27, 2008, December 29, 2007 and December 30, 2006, the Company capitalized approximately $219, $135 and $563, respectively, of software costs in accordance with SOP 98-1. At December 27, 2008 the net balance after depreciation for all software costs capitalized in accordance with SOP 98-1 was $0.5 million.

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *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.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), an interpretation of FASB Statement No. 109 ("SFAS 109"). FIN 48 prescribes a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure and transition. Implementation of FIN 48 did not result in a cumulative effect adjustment to retained earnings. At December 27, 2008 the Company did not have any significant unrecognized tax benefits.

### *Revenue Recognition*

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

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

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

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Revenue Recognition (Continued)*

*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.

### *Unbilled Accounts Receivable*

At December 27, 2008 and December 29, 2007 there were $11.0 million and $8.4 million, respectively, of unbilled receivables included in accounts receivable.

### *Concentration*

During 2008, one customer accounted for 11.1% of the Company's revenues and 17.5% of the Company's accounts receivable. No other customer accounted for 10% or more of the Company's revenues. The Company's five, ten and twenty largest customers accounted for approximately 27.1%, 33.5% and 44.0%, respectively, of the Company's revenues for 2008.

During 2007, one customer accounted for 10.8% of the Company's revenues and 16.4% of the Company's accounts and notes receivable. No other customer accounted for 10% or more of the Company's revenues. The Company's five, ten and twenty largest customers accounted for approximately 29.9%, 38.3% and 48.1%, respectively, of the Company's revenues for 2007.

During 2006, one customer accounted for 11.4% of the Company's revenues and 17.5% of the Company's accounts receivable. No other customer accounted for 10% or more of the Company's revenues. The Company's five, ten and twenty largest customers accounted for approximately 25.2%, 34.6% and 43.4%, respectively, of the Company's revenues for 2006.

### *Foreign Currency Translation*

The functional currency of the Company's Canadian subsidiary is the subsidiary's local currency. Assets and liabilities are translated at period-end exchange rates. Income and expense items are translated at weighted average rates of exchange prevailing during the year. Any translation adjustments are included in the accumulated other comprehensive income account in stockholders' equity. Transactions executed in different currencies resulting in exchange adjustments are translated at spot rates and resulting foreign exchange transaction gains and losses are included in the results of operations.

### *Comprehensive Income*

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

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

### *Per Share Data*

Basic net income per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted net income per share is calculated using the weighted-average number of common shares plus dilutive potential common shares outstanding during the period. Potential common shares consist of stock options that are computed using the treasury stock method. 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 2008, 2007 and 2006 was determined as follows:

| | Year Ended December 27, 2008 | Year Ended December 29, 2007 | Year Ended December 30, 2006 |
|---|---|---|---|
| Basic average shares outstanding | 12,647,127 | 11,970,042 | 11,773,301 |
| Dilutive effect of stock options | — | 514,597 | 261,364 |
| | | | |
| Dilutive shares | 12,647,127 | 12,484,639 | 12,034,665 |

Options to purchase 1,293,900 shares of common stock at prices ranging from $3.00 to $9.81 per share were outstanding as of December 27, 2008. There were 1,069,900 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 27, 2008. Additionally, 224,000 options that were at less than the average market price were not included in the calculation of common stock equivalents because the options were anti-dilutive as the Company is in a net loss position.

Options to purchase 1,462,000 shares of common stock at prices ranging from $3.00 to $9.81 per share were outstanding as of December 29, 2007. There were 35,000 options not included in the calculation of common stock equivalents because the exercise price of the options exceeded the average market price for the year ended December 29, 2007.

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

### *Stock - Based Compensation*

At December 27, 2008, the Company had five stock-based employee compensation plans. The Company measures the fair value of stock options, if and when granted, based upon the closing market price of the Company's common stock on the date of grant. All grants typically vest over a three-year period and expire within 10 years of issuance. Stock options that vest in accordance with service conditions amortize over their applicable vesting period using the straight-line method.

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Stock - Based Compensation (Continued)***

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS 123R") using the modified-prospective transition method. Under that transition method, compensation cost recognized in 2006, 2007 and 2008 included: (a) compensation cost for all stock-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, adjusted for estimated forfeitures, and (b) compensation cost for all stock-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R, adjusted for estimated forfeitures. The straight-line recognition method is used to recognize compensation expense associated with stock-based payments that are subject to graded vesting based on service conditions.

Stock-based compensation expense of $0.1 million, or $0.01 per diluted share, and of $0.4 million, or $0.03 per diluted share, was recognized for the year ended December 27, 2008 and December 29, 2007, respectively.

The pro-forma compensation cost using the fair value-based method under SFAS No. 123R includes valuations related to stock options granted since January 1, 1995 using the Black-Scholes Option Pricing Model. The weighted average fair value of options granted using the Black-Scholes Option Pricing Model during 2008, 2007 and 2006 has been estimated using the following assumptions:

| | Year Ended December 27, 2008 | Year Ended December 29, 2007 | Year Ended December 30, 2006 |
|---|---|---|---|
| Weighted average risk-free interest rate | 3.04% | 4.91% | 4.90% |
| Expected term of option | 5 years | 5 years | 5 years |
| Expected stock price volatility | 61% | 58% | 56% |
| Expected dividend yield | N/A | N/A | N/A |
| Annual forfeiture rate | 16.1% | 29.8% | 22.30% |
| Weighted-average per share value granted | $ 2.57 | $ 4.96 | $ 2.44 |

Expected volatility is based on the historical volatility of the price of the Company's common stock since December 29, 2002. The Company uses historical information to estimate expected life and forfeitures within the valuation model. The expected term of awards represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures. The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model.

There were options to purchase 56,950 and 40,000 shares of common stock granted during the years 2008 and 2007, respectively. The stock-based compensation expense attributable to the 56,950 and 40,000 options was $48 and $15 for fiscal years 2008 and 2007, respectively.

As of December 27, 2008, the Company had approximately $116 of total unrecognized compensation cost related to non-vested awards granted under our various stock-based plans, which is expected to be recognized over a weighted-average period of one year. These amounts do not include the cost of any additional options that may be granted in future periods nor any changes in the Company's forfeiture rate.

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Stock - Based Compensation (Continued)***

The Company received cash from options exercised during the fiscal years 2008 and 2007 of $0 and $849, respectively. The impact of these cash receipts is included in financing activities in the accompanying consolidated statements of cash flows.

***Advertising Costs***

Advertising costs are expensed as incurred. Total advertising expense was $1,110, $1,039 and $1,080 for the fiscal years 2008, 2007 and 2006, 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 uses estimates to calculate an allowance for doubtful accounts on its accounts receivables. These estimates can be significant to the operating results and financial position of the Company.

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

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

***New Accounting Standards***

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under SFAS No. 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. In February 2008, the FASB issued FASB Staff Position No. 157-2, "Effective Date of FASB Statement No. 157," to partially defer SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 was effective for the Company on December 30, 2007, except for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value on a recurring basis for which our effective date is December 28, 2008. The adoption of this statement did not have a material effect on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 expands the use of fair value accounting but does not affect existing standards, which require assets and liabilities to be carried at fair value. Under SFAS No. 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and other eligible financial instruments. SFAS No. 159 is effective for the Company as of December 30, 2007.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***New Accounting Standards (Continued)***

The Company has elected not to apply the fair value option to measure any of the financial assets and liabilities on its balance sheet not already valued at fair value under other accounting pronouncements. These other financial assets and liabilities are primarily accounts receivable, accounts payable and debt which are reported at historical value. The fair value of these financial assets and liabilities approximate their fair value because of their short duration and in the case of the debt because it carries variable interest rates which are reset frequently.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"). This statement replaces SFAS No. 141, "Business Combinations," and requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. SFAS No. 141R requires costs incurred to effect the acquisition to be recognized separately from the acquisition as period costs. SFAS No. 141R also requires the acquirer to recognize restructuring costs that the acquirer expects to incur, but is not obligated to incur, separately from the business combination. In addition, SFAS No. 141R requires an acquirer to recognize assets and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. Other key provisions of this statement include the requirement to recognize the acquisition-date fair values of research and development assets separately from goodwill and the requirement to recognize changes in the amount of deferred tax benefits that are recognizable due to the business combination in either income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. With the exception of certain tax-related aspects described above, SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after December 28, 2008.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles* . This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the U.S. The Company does not believe the adoption of SFAS 162 will have a material impact on its results of operations or financial position.

**2. NOTE RECEIVABLE**

On February 26, 2008, the Company accepted a promissory note from a customer for $7.5 million in payment of a like amount of accounts receivable from that customer. The customer paid $1.2 million through April 30, 2008 at which point management of the Company concluded that the customer was going to default on its May 1, 2008 installment payment. The Company has since determined that the note receivable is not collectible. Therefore, the Company wrote off this note receivable in the amount of $6.1 million.

**3. ACQUISITIONS**

On March 19, 2008 the Company purchased the operating assets of NuSoft Solutions, Inc. ("NuSoft"), a Michigan corporation. NuSoft is a specialty provider of information technology services. The acquisition of NuSoft was completed in order to expand the Company's IT solutions services within the Information Technology business segment. The acquisition was effective as of March 1, 2008. The acquisition has been accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations." Accordingly, the results of operations of the acquired company have been included in the consolidated results of operations of the Company from the effective date and are included in the IT segment.

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**3. ACQUISITIONS (CONTINUED)**

The purchase consideration at closing consisted of $4.5 million in cash and 700,000 shares of RCM's common stock, par value $0.05 (the "Common Stock"), valued at $3.7 million and potential earn-out payments up to $4.4 million of deferred consideration contingent upon NuSoft achieving certain base levels of operating income for each of the three 12-month periods following the purchase. Additional earn-out payments may be made at the end of each of the three 12-month periods following the purchase, to the extent that operating income exceeds these base levels. The acquisition has been accounted for under the purchase method of accounting. The source of cash utilized in the NuSoft acquisition was from the Company's revolving credit facility. The purchase price allocation of $8.2 million is as follows:

| | | |
|---|---|---|
| Customer Relationships | $ | 2,260 |
| Covenants-Not-To-Compete | | 424 |
| Goodwill | | 5,125 |
| Equipment | | 446 |

The deferred consideration and earnouts, if paid, will be recorded as additional purchase consideration. Earnouts cannot be estimated with any certainty.

On April 28, 2008 the Company purchased the operating assets of MBH Solutions, Inc. ("MBH"), a New York corporation. MBH is a specialty provider of information technology services. The acquisition of MBH was completed in order to expand the Company's IT solutions services within the Information Technology business segment. The acquisition was effective as of April 1, 2008 and has been accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations." Accordingly, the results of operations of the acquired company have been included in the consolidated results of operations of the Company from the effective date and are included in the IT segment.

The MBH purchase consideration at closing consisted of $1.8 million in cash and assumption of $1.3 million in certain liabilities and potential earn-out payments up to $1.5 million of deferred consideration contingent upon MBH achieving certain base levels of operating income for each of the three 12-month periods following the purchase. Additional earn-out payments may be made at the end of each of the three 12-month periods following the purchase, to the extent that operating income exceeds these base levels.

The acquisition has been accounted for under the purchase method of accounting. The source of cash utilized in the MBH acquisition was from the Company's revolving credit facility. The purchase price allocation of $3.1 million has been allocated as follows:

| | | |
|---|---|---|
| Customer Relationships | $ | 835 |
| Covenants-Not-To-Compete | | 41 |
| Goodwill | | 2,174 |
| Equipment | | 36 |

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

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## 3. ACQUISITIONS (CONTINUED)

| Year Ending | Amount |
|---|---|
| January 2, 2010 | $ 2,400 |
| January 1, 2011 | 2,300 |
| December 31, 2011 | 1,300 |
| | $ 6,000 |

The above table represents the maximum Deferred Consideration payments. However, the Company's management believes that the actual amount paid in the year ending January 2, 2010 will be $100. The Company cannot estimate the Deferred Consideration payments for the years ended January 1, 2011 and December 31, 2011 with any certainty.

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

The following (unaudited) results of operations have been prepared assuming the two previously described acquisitions had occurred as of the beginning of the periods presented. Those results are not necessarily indicative of results of future operations or of results that would have occurred had the acquisitions occurred as of the beginning of the periods presented.

| | Fifty-Two Weeks Ended | |
|---|---|---|
| Amounts | December 27, 2008 (Unaudited) | December 29, 2007 (Unaudited) |
| Revenues | $ 215,010 | $ 243,327 |
| Operating (loss) income | (624) | 11,330 |
| Net (loss) income | (534) | 7,233 |
| (Loss) earnings per share | $ (.04) | $ .58 |

## 4. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

| | December 27, 2008 | December 29, 2007 |
|---|---|---|
| Equipment and furniture | $ 2,893 | $ 1,102 |
| Computers and systems | 7,232 | 7,315 |
| Leasehold improvements | 1,153 | 990 |
| | 11,278 | 9,407 |
| Less: accumulated depreciation and amortization | 5,692 | 5,178 |
| | $ 5,586 | $ 4,229 |

The Company writes off fully depreciated assets each year. In fiscal 2008, 2007 and 2006, the write-offs were $1,205, $1,407 and $1,243, respectively.

## 5. GOODWILL AND INTANGIBLE ASSETS

As of November 29, 2008, we conducted our annual assessment of goodwill for impairment. To assess goodwill for impairment, we first compare the fair value of our reporting units with their net book value. We estimate the fair value of the reporting units using discounted expected future cash flows, supported by the results of various market approach valuation models. If the fair value of the reporting units exceeds their net book value, goodwill is not impaired, and no further testing is necessary. If the net book value of our reporting units exceeds their fair value, we perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we determine the implied fair value of goodwill in the same manner as if our reporting units were being acquired in a business combination. Specifically, we allocate the fair value of the reporting units to all of the assets and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. If the implied fair value of goodwill is less than the goodwill recorded on our balance sheet, we record an impairment charge for the difference.

As of November 29, 2008, we experienced a sustained, significant decline in our stock price. The Company believes the reduced market capitalization reflects the financial market's reduced expectations of the Company's performance, due in large part to overall deteriorating economic conditions that may have a materially negative impact on the Company's future performance.

We also updated our forecasted cash flows of the reporting units during the fourth quarter. This update considered current economic conditions and trends; estimated future operating results, our views of growth rates, anticipated future economic and regulatory conditions.

Based on the results of our annual assessment of goodwill and intangible assets for impairment, the net book value of two of our segments, the Information Technology Group and the Engineering Group, exceeded their fair value. The fair value of our Commercial Group exceeded the carrying value by $8.5 million, or 84.7%.

Therefore, we performed the second step of the impairment test to the reporting units in our Information Technology and Engineering Groups to determine the implied fair value of goodwill. Specifically, we hypothetically allocated the fair value of the impaired reporting units as determined in the first step to our recognized and unrecognized net assets, including allocations to intangible assets such as customer relationships and non-competition agreements. The resulting implied goodwill was $6.5 million; accordingly, we reduced the goodwill recorded prior to this assessment by $40.5 million to write our goodwill down to the implied goodwill fair value as of November 29, 2008. The resulting implied intangible assets was $0.3 million; accordingly, we reduced the intangible assets recorded prior to this assessment by $2.9 million to write our intangible assets down to the implied intangible fair value as of November 29, 2008.

We performed extensive valuation analyses, utilizing both income and market approaches, in our goodwill assessment process. The following describes the valuation methodologies used to derive the fair value of the reporting units.

- *Income Approach:* To determine fair value, we discounted the expected cash flows of the reporting units. The discount rate used represents the estimated weighted average cost of capital, which reflects the overall level of inherent risk involved in our reporting units and the rate of return an outside investor would expect to earn. To estimate cash flows beyond the final year of our model, we used a terminal value approach. Under this approach, we used estimated operating income before interest, taxes, depreciation and amortization in the final year of our model, adjusted to estimate a normalized cash flow, applied a perpetuity growth assumption and discounted by a perpetuity discount factor to determine the terminal value. We incorporated the present value of the resulting terminal value into our estimate of fair value.

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## 5. GOODWILL AND INTANGIBLES (CONTINUED)

- *Market-Based Approach:* To corroborate the results of the income approach described above, we estimated the fair value of our reporting units using several market-based approaches, including the value that we derive based on our consolidated stock price as described above. We also used the guideline company method which focuses on comparing our risk profile and growth prospects to select reasonably similar/guideline publicly traded companies.

The determination of the fair value of the reporting units requires us to make significant estimates and assumptions that affect the reporting unit's expected future cash flows. These estimates and assumptions primarily include, but are not limited to, the discount rate, terminal growth rates, operating income before depreciation and amortization and capital expenditures forecasts. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. In addition, changes in underlying assumptions would have a significant impact on either the fair value of the reporting units or the goodwill impairment charge.

The allocation of the fair value of the reporting units to individual assets and liabilities within reporting units also requires us to make significant estimates and assumptions. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, customer relationships, non-competition agreements and current replacement costs for certain property, plant and equipment.

Goodwill at December 27, 2008 and December 29, 2007 was $6.5 million and $39.6 million, respectively. Intangible assets at December 27, 2008 and December 29, 2007, was $0.3 million. There can be no assurance that future tests of goodwill and intangible asset impairment will not result in impairment charges.

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

The changes in the carrying amount of goodwill for the years ended December 27, 2008 and December 29, 2007 are as follows:

| | Information Technology | Engineering | Commercial | Total |
|---|---|---|---|---|
| Balance as of December 30, 2006 | $ 29,643 | $ 7,882 | $ 1,804 | $ 39,329 |
| Goodwill acquired during 2007 | — | 259 | — | 259 |
| Balance as of December 29, 2007 | 29,643 | 8,141 | 1,804 | 39,588 |
| Goodwill acquired during 2008 | 7,300 | 100 | — | 7,400 |
| Goodwill impairment during 2008 | (32,209) | (8,241) | — | (40,450) |
| Balance as of December 27, 2008 | $ 4,734 | $ — | $ 1,804 | $ 6,538 |

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## 5. GOODWILL AND INTANGIBLES (CONTINUED)

The changes in the carrying amount of intangible assets for the years ended December 27, 2008 and December 29, 2007 are as follows:

| | Information Technology | Engineering | Commercial | Total |
|---|---|---|---|---|
| Balance as of December 30, 2006 | $ 522 | $ 147 | $ — | $ 669 |
| Intangibles acquired during 2007 | — | — | — | — |
| Amortization of intangibles during 2007 | (286) | (34) | — | (320) |
| Balance as of December 29, 2007 | 236 | 113 | — | 349 |
| Intangibles acquired during 2008 | 3,560 | — | — | 3,560 |
| Amortization of intangibles during 2008 | (733) | (34) | — | (767) |
| Intangibles impairment during 2008 | (2,866) | — | — | (2,866) |
| Balance as of December 27, 2008 | $ 197 | $ 79 | $ — | $ 276 |

## 6. LINE OF CREDIT

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, which was amended and restated effective February 20, 2009, which now provides for a $15 million revolving credit facility and includes a sub-limit of $5.0 million for letters of credit (the “Revolving Credit Facility”). At December 27, 2008 the loan agreement provided for a $25 million Revolving Credit Facility. Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, or (ii) the agent bank’s prime rate. The Company also pays unused line fees based on the amount of the Revolving Credit Facility that is not drawn.

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

The weighted average interest rates under the Revolving Credit Facility for the year ended December 27, 2008 and December 29, 2007 were 3.82% and 8.25%, respectively. The majority of borrowings in 2008 were subject to alternative (i) LIBOR (London Interbank Offered Rate), plus applicable margin on contracts of 30 days or more. All borrowings in 2007 were short term and borrowed under alternative (ii) the agent bank’s prime rate. During the year ended December 27, 2008 and December 29, 2007, the Company’s outstanding borrowings ranged from $-0- to $10.5 million and $-0- million to $1.5 million, respectively. At December 27, 2008 and December 29, 2007, there were borrowings of $4.9 million and $0.0 outstanding under this facility, respectively. At December 27, 2008, there were letters of credit outstanding for $1.6 million. At December 27, 2008, the Company had availability for additional borrowings under the Revolving Credit Facility of $18.5 million. Upon execution of the amendment to the Company’s loan agreement on February 20, 2009, availability was reduced to $8.5 million on a proforma basis.

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## 7. STOCK BASED COMPENSATION

***Common Stock Reserved***

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

| | December 27, 2008 | December 29, 2007 |
|---|---|---|
| Exercise of options outstanding | 1,293,900 | 1,462,000 |
| Future grants of options | 699,294 | 728,694 |
| | | |
| Total | 1,993,194 | 2,190,694 |

***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 issuance of up to 500,000 shares of common stock per individual to officers, directors, and key employees of the Company and its subsidiaries through February 13, 2002, at which time the 1992 Plan expired. The options issued were intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code. The option terms were not permitted to exceed ten years and the exercise price was not permitted to be less than 100% of the fair market value of the shares at the time of grant. The Compensation Committee of the Board of Directors determined the vesting period at the time of grant for each of these options. As of December 27, 2008, options to purchase 60,455 shares of common stock were outstanding.

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

The 1994 Plan, approved by the Company's stockholders in May 1994 and amended in April 1998, provided for issuance of up to 110,000 shares of common stock to non-employee directors of the Company through February 19, 2004, at which time the 1994 Plan expired. Options granted under the 1994 Plan were granted at fair market value at the date of grant, and the exercise of options is contingent upon service as a director for a period of one year. Options granted under the 1994 Plan terminate when an optionee ceases to be a Director of the Company. As of December 27, 2008, options to purchase 50,000 shares of common stock were outstanding.

*1996 Executive Stock Option Plan (the 1996 Plan)*

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provides for issuance of up to 1,250,000 shares of common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006, at which time the 1996 Plan expired. Options are generally granted at fair market value at the date of grant. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of December 27, 2008, options to purchase 679,545 shares of common stock were outstanding.

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## 7. STOCK BASED COMPENSATION (CONTINUED)

***Incentive Stock Option Plans (Continued)***

*2000 Employee Stock Incentive Plan (the 2000 Plan)*

The 2000 Plan, approved by the Company's stockholders in April 2001, provides for issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors may award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determines the vesting period at the time of grant. As of December 27, 2008, options to purchase 28,694 shares of common stock were available for future grants, and options to purchase 474,500 shares of common stock were outstanding.

*2007 Omnibus Equity Compensation Plan (the 2007 Plan)*

The 2007 Plan, approved by the Company's stockholders in June 2007, provides for the issuance of up to 700,000 shares of the Company's common stock to officers, non-employee directors, employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. No more than 350,000 shares of common stock in the aggregate may be issued pursuant to grants of stock awards, stock units, performance shares and other stock-based awards. No more than 300,000 shares of common stock with respect to awards may be granted to any individual during any fiscal year. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of December 27, 2008, options to purchase 670,600 shares of common stock were available for future grants, and options to purchase 29,400 shares of common stock were outstanding.

Transactions related to all stock options are as follows:

| | Year Ended December 27, 2008 | Weighted-Average Exercise Price | Year Ended December 29, 2007 | Weighted-Average Exercise Price | Year Ended December 30, 2006 | Weighted-Average Exercise Price |
|---|---|---|---|---|---|---|
| Outstanding options at beginning of year | 1,462,000 | $ 4.48 | 1,768,000 | $ 4.34 | 1,935,483 | $ 4.34 |
| Granted | 56,950 | 4.93 | 40,000 | 9.29 | 12,000 | 6.12 |
| Cancelled | (225,050) | 4.60 | (138,000) | 4.70 | (119,388) | 4.68 |
| Exercised | — | — | (208,000) | 4.08 | (60,095) | 3.82 |
| Outstanding options at end of year | 1,293,900 | $ 4.48 | 1,462,000 | $ 4.48 | 1,768,000 | $ 4.34 |
| Exercisable options at end of year | 1,214,500 | $ 4.30 | 904,000 | $ 4.10 | 1,005,000 | $ 4.00 |
| Option grant price per share | $3.00 to $9.81 | | $3.00 to $9.81 | | $3.00 to $7.04 | |

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## 7. STOCK BASED COMPENSATION (CONTINUED)

The following table summarizes information about stock options outstanding at December 27, 2008:

| Range of Exercise Prices | Number of Outstanding Options | | Weighted-Average Remaining Contractual Life | | Weighted-Average Exercise Price | |
|---|---|---|---|---|---|---|
| | Outstanding | Vested | Outstanding | Vested | Outstanding | Vested |
| $3.00 - $4.40 | 818,500 | 818,500 | 4.91 | 4.91 | $ 3.95 | $ 3.95 |
| $4.70 - $6.91 | 440,400 | 391,000 | 4.80 | 4.32 | $ 5.06 | $ 4.98 |
| $9.16 - $9.81 | 35,000 | 5,000 | 8.55 | 8.54 | $ 9.62 | $ 9.16 |
| $3.00 - $9.81 | 1,293,900 | 1,214,500 | 4.97 | 4.73 | $ 4.48 | $ 4.30 |

***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 27, 2008, there were 15,337 shares issued under the Purchase Plan for net proceeds of $56. As of December 27, 2008, there were 141,792 shares available for issuance under the Purchase Plan.

## 8. RETIREMENT PLANS

***Profit Sharing Plan***

The Company maintains a 401(k) profit sharing plan for the benefit of 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 27, 2008, December 29, 2007 and December 30, 2006 were $330, $287 and $251, respectively.

## 9. COMMITMENTS

***Employment Agreement***

The Company has an employment agreement with its Chief Executive Officer and President, Leon Kopyt (“Mr. Kopyt”), which currently provides for an annual base salary of $550 and other customary benefits. In addition, the agreement provides that Mr. Kopyt’s annual bonus is based on EBITDA, defined as earnings before interest, taxes, depreciation, and amortization. As of December 27, 2008, the agreement expires on February 28, 2009. The agreement is for a rolling term of three years, which automatically extends each year for an additional one-year period on February 28 of each year. The employment agreement is terminable by the Company upon Mr. Kopyt’s death or disability, or for “good and sufficient cause,” as defined in the agreement.

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## 9. COMMITMENTS (CONTINUED)

***Termination Benefits Agreement***

The Company is party to a Termination Benefits Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (the “Benefits Agreement”). Pursuant to the Benefits Agreement, following a Change in Control (as defined therein), the remaining term of Mr. Kopyt’s employment is extended for five years (the “Extended Term”). If Mr. Kopyt’s employment is terminated thereafter by the Company other than for cause, or by Mr. Kopyt for good reason (including, among other things, a material change in Mr. Kopyt’s salary, title, reporting responsibilities or a change in office location which requires Mr. Kopyt to relocate), then the following provisions take effect: the Company is obligated to pay Mr. Kopyt a lump sum equal to his salary and bonus for the remainder of the Extended Term; and the Company shall be obligated to pay to Mr. Kopyt the amount of any excise tax associated with the benefits provided to Mr. Kopyt under the Benefits Agreement. If such a termination had taken place as of December 27, 2008, Mr. Kopyt would have been entitled to cash payments of approximately $4.9 million (representing salary and excise tax payments).

***Severance Agreement***

The Company is party to a Severance Agreement with Mr. Kopyt, amended on December 12, 2007 to comply with the requirements of section 409A of the Internal Revenue Code of 1986 (the “Severance Agreement”). The agreement provides for certain payments to be made to Mr. Kopyt and for the continuation of Mr. Kopyt’s employee benefits for a specified time after his service with the Company is terminated other than “for cause,” as defined in the Severance Agreement. Amounts payable to Mr. Kopyt under the Severance Agreement would be offset and reduced by any amounts received by Mr. Kopyt after his termination of employment under his 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 27, 2008, then under the terms of the Severance Agreement, and after offsetting any amounts that would have been received under his current employment and termination benefits agreements, he would have been entitled to cash payments of approximately $3.2 million, inclusive of employee benefits.

***Operating Leases***

The Company leases office facilities and various equipment under non-cancelable leases expiring at various dates through September 2015. Certain leases are subject to escalation clauses based upon changes in various factors. The minimum future annual operating lease commitments for leases with non-cancelable terms in excess of one year, exclusive of operating escalation charges, are as follows (in thousands):

| Year ending December 31, | Amount (In thousands) |
|---|---|
| 2009 | $ 4,310 |
| 2010 | 3,322 |
| 2011 | 2,890 |
| 2012 | 1,846 |
| 2013 | 777 |
| Thereafter | 240 |
| Total | $ 13,385 |

Rent expense for the fiscal years ended December 27, 2008, December 29, 2007 and December 30, 2006 was $3,564, $3,012 and $3,079, respectively.

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## 9. COMMITMENTS (CONTINUED)

***Operating Leases (Continued)***

The Company subleases space to other tenants at various office locations under cancelable lease agreements. During fiscal 2008, 2007 and 2006 revenues of approximately $384, $417 and $114, respectively, were recognized under these leasing arrangements.

## 10. RELATED PARTY TRANSACTIONS

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

## 11. INCOME TAXES

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

| | Year Ended December 27, 2008 | Year Ended December 29, 2007 | Year Ended December 30, 2006 |
|---|---|---|---|
| Current | | | |
| Federal | $ — | $ 162 | $ — |
| State and local | 189 | 756 | 259 |
| Foreign | 1,122 | 864 | 27 |
| | 1,311 | 1,782 | 286 |
| Deferred | | | |
| Federal | (4,549) | 2,518 | 704 |
| State | (1,320) | (16) | 124 |
| | (5,869) | 2,502 | 828 |
| Total | $ (4,558) | $ 4,284 | $ 1,114 |

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

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| Tax at statutory rate (credit) | 34.0% | 34.0% | 34.0% |
| State income taxes, net of Federal income tax benefit | 1.7 | 4.4 | 6.2 |
| Stock compensation expense | (0.1) | 1.3 | 4.3 |
| Foreign income tax effect | (0.5) | .5 | 1.3 |
| Non-deductible impairment of goodwill and intangible assets | (23.1) | — | — |
| Deductible amortization | — | (2.3) | (3.3) |
| Federal tax audit adjustment | — | — | (27.4) |
| Non-deductible charges | (0.2) | 0.9 | 1.3 |
| Other, net | (1.5) | — | (1.5) |
| Total income tax expense | 10.3% | 38.8% | 14.9% |

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## 11. INCOME TAXES (CONTINUED)

At December 27, 2008 and December 29, 2007, deferred tax assets and liabilities consist of the following:

| Deferred tax assets: | December 27, 2008 | December 29, 2007 |
|---|---|---|
| Loss carryforwards | $ 2,387 | $ 135 |
| Allowance for doubtful accounts | 432 | 633 |
| Alternative minimum tax credits | 178 | 162 |
| Tax amortization, net | 4,376 | — |
| Reserves and accruals | 156 | 146 |
| Litigation reserve | 0 | 106 |
| Other | 43 | — |
| Valuation allowance | (358) | — |
| Net | 7,214 | 1,182 |
| Deferred tax liabilities: | | |
| Prepaid expense deferral | (634) | (471) |
| | (634) | (471) |
| Net deferred tax assets | $ 6,580 | $ 711 |

The deferred tax asset relating to the net operating loss carryforward represents the tax effect of a federal net operating loss carryforward of approximately $6.1 million expiring by the year 2028 and state net operating losses of $0.4 million from various states that expire at various times through 2028.

The Company recorded a valuation reserve in the amount of $0.4 million. This valuation reserve related to state net operating losses. Of the remaining deferred tax asset, management has determined that it is more likely than not that it will realize the net deferred tax asset based upon the nature and timing of the items listed above. In order to fully realize the net deferred tax asset, the Company will need to generate future taxable income. Management has projected that the Company will generate sufficient taxable income to utilize the net deferred tax asset; however, there can be no assurance that such levels of taxable income will be generated.

The Company did not have any liabilities for uncertain tax positions or any known unrecognized tax benefits at December 31, 2008 and 2007. The Company's policy is to record interest and penalty in interest expense.

The Company and its subsidiaries file a consolidated U.S. Federal income tax return and file in various states. The Company and its subsidiaries are no longer subject to income tax examinations by taxing authorities for years prior to 2005.

## 12. INTEREST (EXPENSE) INCOME, NET

Interest (expense) income, net consisted of the following:

| | Years Ended | | |
|---|---|---|---|
| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
| Interest expense | $ (305) | $ (36) | $ (505) |
| Unused line fee | (17) | (31) | (34) |
| Interest income | 92 | 126 | 283 |
| | $ (230) | $ 59 | $ (256) |

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## 13. SEGMENT INFORMATION

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

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

| Fiscal 2008 | Information Technology | Engineering | Commercial | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 103,446 | $ 59,251 | $ 46,580 | $ — | $ 209,277 |
| Operating expenses (1) (2) | 102,565 | 61,486 | 43,909 | — | 207,960 |
| EBITDA (3) | 881 | (2,235) | 2,671 | — | 1,317 |
| Depreciation | 645 | 478 | 177 | — | 1,300 |
| Amortization of intangibles | 733 | 34 | — | — | 767 |
| Impairment of goodwill and intangible assets | 35,075 | 8,240 | — | — | 43,315 |
| Operating (loss) income | (35,572) | (10,987) | 2,494 | — | (44,065) |
| Interest expense, net of interest income | 114 | 65 | 51 | — | 230 |
| Loss on foreign currency transactions | — | 75 | — | — | 75 |
| Other | (7) | — | — | — | (7) |
| Income (benefit) expense | (4,162) | (1,393) | 998 | — | (4,558) |
| Net (loss) income | $ (31,517) | $ (9,734) | $ 1,445 | $ — | $ (39,805) |
| Total assets | $ 22,419 | $ 27,941 | $ 14,059 | $ 14,422 | $ 78,841 |
| Capital expenditures | $ 122 | $ 367 | $ 168 | $ 2,010 | $ 2,667 |

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

## 13. SEGMENT INFORMATION (CONTINUED)

| Fiscal 2007 | Information Technology | Engineering | Commercial | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 98,951 | $ 71,156 | $ 44,102 | $ — | $ 214,209 |
| Operating expenses (1) (2) | 93,019 | 67,245 | 42,387 | — | 202,651 |
| EBITDA (3) | 5,932 | 3,911 | 1,715 | — | 11,558 |
| Depreciation | 503 | 462 | 157 | — | 1,122 |
| Amortization of intangibles | 286 | 34 | — | — | 320 |
| Operating income | 5,143 | 3,415 | 1,558 | — | 10,116 |
| Interest income, net of interest expense | (30) | (20) | (9) | — | (59) |
| Gain on foreign currency transactions | — | (78) | — | — | (78) |
| Legal settlement | — | — | — | (800) | (800) |
| Income taxes | 2,005 | 1,362 | 607 | 310 | 4,284 |
| Net income | $ 3,168 | $ 2,151 | $ 960 | $ 490 | $ 6,769 |
| Total assets | $ 50,832 | $ 28,431 | $ 14,060 | $ 16,391 | $ 109,714 |
| Capital expenditures | $ 372 | $ 124 | $ 32 | $ 97 | $ 625 |

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**13. SEGMENT INFORMATION (CONTINUED)**

| Fiscal 2006 | Information Technology | Engineering | Commercial | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 101,449 | $ 57,607 | $ 42,864 | $ — | $ 201,920 |
| Operating expenses (1)(2) | 94,799 | 56,569 | 41,288 | — | 192,656 |
| EBITDA (3) | 6,650 | 1,038 | 1,576 | — | 9,264 |
| Depreciation | 533 | 495 | 169 | — | 1,197 |
| Amortization of intangibles | 286 | 24 | — | — | 310 |
| Operating income | 5,831 | 519 | 1,407 | — | 7,757 |
| Interest expense, net of interest income | 129 | 73 | 54 | — | 256 |
| Loss on foreign currency transactions | — | 31 | — | — | 31 |
| Income taxes | 850 | 62 | 202 | — | 1,114 |
| Net income | $ 4,852 | $ 353 | $ 1,151 | $ — | $ 6,356 |
| Total assets | $ 53,431 | $ 24,272 | $ 12,137 | $ 10,200 | $ 100,040 |
| Capital expenditures | $ 282 | $ 1,009 | $ 63 | $ 215 | $ 1,569 |

(1) Operating expenses exclude depreciation and amortization.

(2) Operating expenses include $100, $411 and $956 of stock based compensation expense for the years ended December 27, 2008, December 29, 2007 and December 30, 2006, respectively.

(3) 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 EBITDA 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, nor 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 in the United States of America.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

## 13. SEGMENT INFORMATION (CONTINUED)

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

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| Consolidated operating (loss) income | $ (44,065) | $ 10,116 | $ 7,757 |
| Interest (expense) income, net | (230) | 59 | (256) |
| Gain (loss) on foreign currency transactions | (75) | 78 | (31) |
| Other | 7 | — | — |
| Legal settlement | — | 800 | — |
| Consolidated pretax net (loss) income | $ (44,363) | $ 11,053 | $ 7,470 |

The Company derives a majority of its revenue from companies headquartered in the United States. Revenues reported for each operating segment are all from external customers.

The Company is domiciled in the United States and its segments operate in the United States and Canada. Revenues and fixed assets by geographic area for the years ended December 27, 2008, December 29, 2007 and December 30, 2006 are as follows:

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| Revenues | | | |
| United States | $ 188,672 | $ 198,032 | $ 190,644 |
| Canada | 20,605 | 16,177 | 11,276 |
| | $ 209,277 | $ 214,209 | $ 201,920 |
| | | | |
| Fixed Assets | | | |
| United States | $ 5,496 | $ 4,127 | $ 4,338 |
| Canada | 90 | 102 | 54 |
| | $ 5,586 | $ 4,229 | $ 4,392 |

## 14. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

***Year Ended December 27, 2008***

| | Sales | Gross Profit | Net (Loss) Income | Diluted Net (Loss) Income Per Share (a) |
|---|---|---|---|---|
| 1st Quarter | $ 49,114 | $ 12,298 | $ (2,669) | $ (0.22) |
| 2nd Quarter | 55,011 | 15,150 | 1,440 | 0.11 |
| 3rd Quarter | 51,617 | 13,255 | 565 | 0.04 |
| 4th Quarter (a) | 53,535 | 13,272 | (39,141) | (3.06) |
| | | | | |
| Total | $ 209,277 | $ 53,975 | $ (39,805) | $ (3.15) |

(a) In the fourth quarter of 2008, the Company recorded a cumulative adjustment to income tax (benefit) expense to properly record deferred tax liabilities associated with acquisitions in 2008 and prior to 2008 totaling an increase to deferred tax liabilities of $1.3 million and an increase to deferred tax expense of $1.3 million. Of that total, approximately $0.6 million relates to years prior to 2006, and $0.2 million relates to each of the years 2006 and 2007, and $0.3 million relates to the prior interim quarters of 2008. Management believes that the adjustments related to all prior years and prior interim quarters of 2008 are immaterial to those financial statements. Additionally, in the fourth quarter of 2008, the Company recorded a goodwill impairment charge totaling $37.6 million, net of tax.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

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

***Year Ended December 29, 2007***

| | Sales | Gross Profit | Net Income | Diluted Net Income Per Share (a) |
|---|---|---|---|---|
| 1st Quarter | $ 54,493 | $ 12,377 | $ 1,571 | $ .13 |
| 2nd Quarter | 56,846 | 13,959 | 1,853 | .15 |
| 3rd Quarter | 54,079 | 13,433 | 1,724 | .14 |
| 4th Quarter | 48,791 | 13,207 | 1,621 | .13 |
| Total | $ 214,209 | $ 52,976 | $ 6,769 | $ .54 |

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

## 15. CONTINGENCIES

In late 1998, two shareholders who were formerly officers and directors of the Company filed suit against the Company. The former officers and directors alleged that the Company wrongfully limited the number of shares of the Company's common stock that could have been sold by the plaintiffs under a registration rights agreement entered into in connection with an acquisition transaction pursuant to which the plaintiffs became shareholders of the Company.

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

In November 2002, the Company filed suit on professional liability claims against the attorneys and law firms who had served as its counsel in the acquisition transaction and in connection with its subsequent dealings with the plaintiffs concerning their various relationships with the Company resulting from that transaction. In its lawsuit against its former counsel, the Company was seeking complete indemnification with respect to (1) its costs and counsel fees incurred in the defense against the claims of the plaintiffs; (2) the amount it paid to satisfy the judgment; and (3) its costs and counsel fees incurred in the prosecution of the legal malpractice action itself. In February 2007, the Company reached a settlement with one of the law firm defendants resulting in the recovery of $0.8 million. On March 16, 2009 the Company entered into a settlement agreement with the remaining defendants in this lawsuit. The Company expects to receive $9.8 million, $5.9 net of tax effect, on or before March 31, 2009.

**15. CONTINGENCIES (CONTINUED)**

The Company is party to two agreements of indemnity related to the performance of two construction projects. One of these construction projects is managed by a former customer of the Company and management of the Company believes this project will be completed by the end of the first quarter of 2009. The second of these construction projects was managed by the same customer prior to November 2008 when the initial contract was transferred to the Company. The Company now acts as the general contractor on this construction project. The contract price is approximately $6.2 million and management of the Company estimates it was approximately 60% complete as of December 27, 2008. The Company believes this project will be finished in the fourth quarter of 2009. In the event of non-performance on either construction project, the Company may be obligated to indemnify the project owners for certain cost overruns on such projects. Management believes that any such cost overruns would not have a significant adverse financial impact to the financial position of the Company and its results of operations.

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.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 27, 2008 based upon criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management determined that the company's internal control over financial reporting was effective as of December 27, 2008, based on the criteria in Internal Control-Integrated Framework issued by COSO.

This annual report does not include an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

This report shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this report shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

| | |
|---|---|
| /s/ Leon Kopyt | /s/ Kevin D. Miller |
| Leon Kopyt<br>Chairman and Chief Executive Officer | Kevin D. Miller<br>Chief Financial Officer, Treasurer and Secretary |

Dated: March 23, 2009

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors
RCM Technologies, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of RCM Technologies, Inc. (a Nevada corporation) and Subsidiaries (the Company) as of December 27, 2008 and December 29, 2007 and the related consolidated statements of operations, changes in stockholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 27, 2008. Our audits of the basic financial statements included the financial statement schedules listed in the index appearing under Item 15 (a)(2). These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RCM Technologies, Inc. and Subsidiaries as of December 27, 2008 and December 29, 2007, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended December 27, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Grant Thornton LLP
Grant Thornton LLP
Philadelphia, Pennsylvania
March 24, 2009

**SCHEDULE I**

**RCM TECHNOLOGIES, INC. (PARENT COMPANY)**
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**
**BALANCE SHEET**
**December 27, 2008 and December 29, 2007**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

**ASSETS**

| | December 27, 2008 | December 29, 2007 |
|---|---|---|
| Current assets | | |
| Prepaid expenses and other assets | $ 13 | $ 4 |
| Other assets | | |
| Long-term receivables from affiliates | 55,338 | 92,201 |
| Total assets | $ 55,351 | $ 92,205 |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

| | December 27, 2008 | December 29, 2007 |
|---|---|---|
| Current liabilities | | |
| Accounts payable and accrued expenses | $ — | $ 157 |
| Stockholders' equity | | |
| Common stock | 639 | 603 |
| Foreign currency translation adjustment | 720 | 1,484 |
| Additional paid in capital | 106,788 | 102,951 |
| Accumulated deficit | (52,796) | (12,990) |
| Total stockholders' equity | 55,351 | 92,048 |
| Total liabilities and stockholders' equity | $ 55,351 | $ 92,205 |

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

**SCHEDULE I**
**RCM TECHNOLOGIES, INC. (PARENT COMPANY)**
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**
**STATEMENTS OF INCOME**
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| Operating expenses | | | |
| Administrative | $ 2,388 | $ 1,414 | $ 1,445 |
| Operating loss | (2,388) | (1,414) | (1,445) |
| Management fee income | 2,388 | 1,414 | 1,445 |
| Income before income in subsidiaries | | | |
| Equity in earnings of subsidiaries | (39,805) | 6,769 | 6,356 |
| Net (loss) income | $ (39,805) | $ 6,769 | $ 6,356 |

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

**SCHEDULE I**
**RCM TECHNOLOGIES, INC. (PARENT COMPANY)**
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**
**STATEMENTS OF CASH FLOWS**
**Years Ended December 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net (loss) income | $ (39,805) | $ 6,769 | $ 6,356 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Recognition of share based compensation | 100 | 411 | 956 |
| Share (equity) in deficiency in assets of subsidiaries | 39,805 | (6,769) | (6,356) |
| Changes in operating assets and liabilities: | | | |
| Prepaid expenses and other assets | — | (1) | 5 |
| Accounts payable and accrued expenses | (165) | (77) | 112 |
| | 39,740 | (6,436) | (5,283) |
| Net cash (used in) provided by operating activities | (65) | 333 | 1,073 |
| Cash flows from investing activities: | | | |
| Decrease (increase) in long-term receivables from subsidiaries | 621 | (807) | (1,458) |
| Net cash provided by (used in) investing activities | 621 | (807) | (1,458) |
| Cash flows from financing activities: | | | |
| Sale of stock for employee stock purchase plan | 55 | 144 | 144 |
| Exercise of stock options | — | 849 | 229 |
| Net cash provided by financing activities | 55 | 993 | 373 |
| Effect of exchange rate changes on cash and cash equivalents | (611) | (519) | 12 |
| Net increase in cash and equivalents | — | — | — |
| Cash and equivalents at beginning of year | — | — | — |
| Cash and equivalents at end of year | $ — | $ — | $ — |

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

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## SCHEDULE II

## RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
## VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
## Years Ended December 27, 2008, December 29, 2007 and December 30, 2006

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

| 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 27, 2008*** | | | | | |
| Allowance for doubtful accounts on trade and note receivable | $ 1,583 | $ 7,674 | | $ 8,315 | $ 942 |
| ***Year Ended December 29, 2007*** | | | | | |
| Allowance for doubtful accounts on trade receivables | $ 1,672 | $ 598 | | $ 687 | $ 1,583 |
| ***Year Ended December 30, 2006*** | | | | | |
| Allowance for doubtful accounts on trade receivables | $ 1,792 | $ 294 | | $ 414 | $ 1,672 |

**EXHIBIT INDEX**

| | |
|---|---|
| (3)(d) | Amended and Restated Bylaws. |
| (10)(o) | Compensation Arrangements for Named Executive Officers. |
| (10)(p) | Compensation Arrangements for Directors. |
| (10)(u) | Separation and Release Agreement, dated August 27, 2008; incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated August21, 2008, filed with the Securities and Exchange Commission on August 27, 2008. |
| (11) | Computation of Earnings Per Share. |
| (21) | Subsidiaries of the Registrant. |
| (23) | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of Chief Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002. |

**Exhibit (3)(d)**

Adopted as of June 6, 1997,
as amended as of June 14, 2007

# AMENDED AND RESTATED BYLAWS
# OF
# RCM TECHNOLOGIES, INC.

## ARTICLE I
Offices and Fiscal Year

Section 1.01. Registered Office . The Registered Office of the Company shall be at Bank of America Plaza, Suite 800, 50 West Liberty Street, Reno, Nevada 89501 until otherwise established by the board of directors and a record of such change is filed with the Department of State in the manner provided by law.

Section 1.02. Other Offices . The Company may have offices at such other places within or without the State of Nevada as the board of directors may from time to time appoint or the business of the Company may require.

Section 1.03. Fiscal Year . The fiscal year of the Company shall begin on the 1st day of November in each year.

## ARTICLE II
Notice - Waivers - Meetings Generally

Section 2.01. Manner of Giving Notice .

(a) General Rule . Whenever written notice is required to be given to any person under the provisions of the Articles of Incorporation or these Bylaws, it may be given to the person either personally or by sending a copy thereof by first class or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answer back received), courier service, (charges prepaid), or by telecopier, to the address (or to the telex, TWX, telecopier or telephone number) of the person appearing on the records of the Company or, in the case of directors, supplied by the director to the Company for the purpose of notice. If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched or, in the case of telecopier, when received. A notice of meeting shall specify the place, day and hour of the meeting and any other information required by any other provision of the Articles of Incorporation or these Bylaws. Notwithstanding the foregoing, notice to the shareholders of every meeting of shareholders shall be personally delivered or mailed postage prepaid.

(b) Adjourned Shareholder Meetings . When a meeting of shareholders is adjourned it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which the adjournment is taken, unless the board of directors fixes a new record date for the adjourned meeting.

Section 2.02. Notice of Meetings of Board of Directors . Notice of a regular meeting of the board of directors need not be given. Notice of every special meeting of the board of directors shall be given to each director by telephone or in writing at least 24 hours (in the case of notice by telephone, telex, TWX or telecopier) or 48 hours (in the case of notice by telegraph, courier service or express mail) or five days (in the case of notice by first class mail) before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting. Neither the business to be transacted at, nor the purpose of any regular or special meeting of the board of directors need be specified in a notice of the meeting.

Section 2.03. Notice of Meeting of Shareholders .

(a) General Rule . Written notice of every meeting of shareholders shall be given and signed by, or at the direction of, the Secretary to each shareholder of record entitled to vote at the meeting at least ten days and not more than 60 days prior to the day named for a meeting. If the Secretary neglects or refuses to give notice of a meeting, the person or persons calling the meeting may do so. In the case of a special meeting of shareholders, the notice shall specify the purpose of the meeting and the general nature of the business to be transacted.

Section 2.04. Waiver of Notice.

(a) Written Waiver . Whenever any written notice is required to be given under the provisions of the Articles of Incorporation or these Bylaws, a waiver thereof in writing signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of the notice. Except as otherwise required by this subsection, neither the business to be transacted at, nor the purpose of a meeting need be specified in the waiver of notice of the meeting. In the case of a special meeting of shareholders the waiver of notice shall specify the general nature of the business to be transacted.

(b) Waiver by Attendance . Attendance of a person at any meeting shall constitute a waiver of notice of the meeting except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

Section 2.05. Modification of Proposal Contained in Notice . Whenever the language of a proposed resolution is included in a written notice of a meeting required to be given under the provisions of the Articles of Incorporation or these Bylaws, the meeting considering the resolution may without further notice adopt it with such clarifying or other amendments as do not enlarge its original purpose.

Section 2.06. Exception to Requirement of Notice.

(a) General Rule. Whenever any notice or communication is required to be given to any person under the provisions of the Articles of Incorporation or these Bylaws or by the terms of any agreement or other instrument or as a condition precedent to taking any corporate action and communication with that person is then unlawful, the giving of the notice or communication to that person shall not be required.

(b) Shareholders Without Forwarding Addresses. Notice or other communications shall not be sent to any shareholders with whom the Company has been unable to communicate for more than 24 consecutive months because communications to the shareholder are returned unclaimed or the shareholder has otherwise failed to provide the Company with a current address. Whenever the shareholder provides the Company with a current address, the Company shall commence sending notices and other communications to the shareholder in the same manner as to other shareholders.

Section 2.07. Use of Conference Telephone and Similar Equipment. Any director may participate in any meeting of the board of directors, and the board of directors may provide by resolution with respect to a specific meeting or with respect to a class of meetings that one or more persons may participate in a meeting of the shareholders of the Company, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this Section shall constitute presence in person at the meeting.

## ARTICLE III
Shareholders

Section 3.01. Place of Meeting. All meetings of the shareholders of the Company shall be held at the Registered Office of the Company unless another place is designated by the board of directors in the notice of the meeting.

Section 3.02. Annual Meeting. The board of directors may fix and designate the date and time of the annual meeting of shareholders, notice of which shall be given not less than ten days nor more than 60 days prior to the date named for the meeting.

Section 3.03. Special Meetings.

(a) Call of Special Meetings. Special meetings of the shareholders may be called at any time:

(1) by the board of directors; or

(2) unless otherwise provided in the Articles of Incorporation, by shareholders entitled to cast at least eighty percent of the votes that all shareholders are entitled to cast at the particular meeting. (b) Fixing of Time for Meeting. At any time, upon the written request of any person who has called a special meeting, it shall be the duty of the Secretary to fix

the time of the meeting which shall be held not more than 60 days after the receipt of the request. If the Secretary neglects or refuses to fix the time of the meeting, the person or persons calling the meeting may do so.

Section 3.04. Quorum and Adjournment.

(a) General Rule. A meeting of shareholders of the Company duly called shall not be organized for the transaction of business unless a quorum is present. The presence of shareholders entitled to cast a majority of the votes all shareholders are entitled to cast on a particular matter to be acted upon at the meeting shall constitute a quorum for the purposes of consideration and action on the matter.

(b) Withdrawal of a Quorum. The shareholders present at a duly organized meeting can continue to do business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

(c) Adjournments Generally. Any regular or special meeting of the shareholders, including one at which directors are to be elected and one which cannot be organized because a quorum has not attended, may be adjourned for such period and to such place as the shareholders present and entitled to vote shall direct.

(d) Electing Directors at Adjourned Meeting. Those shareholders entitled to vote who attend a meeting called for the election of directors that has been previously adjourned for lack of a quorum, although less than a quorum as fixed in this section, shall nevertheless constitute a quorum for the purpose of electing directors.

(e) Other Action in Absence of Quorum. Those shareholders entitled to vote who attend a meeting of shareholders that has been previously adjourned for one or more periods aggregating at least fifteen days because of an absence of a quorum, although less than a quorum as fixed in this Section, shall nevertheless constitute a quorum for the purpose of acting upon any matter set forth in the notice of the meeting if the notice states that those shareholders who attend the adjourned meeting shall nevertheless constitute a quorum for the purpose of acting upon the matter.

Section 3.05. Action by Shareholders. Except as otherwise provided in the Articles of Incorporation or these Bylaws, whenever any corporate action is to be taken by vote of the shareholders of the Company, it shall be authorized by a majority of the votes cast at a duly organized meeting of shareholders by the holders of shares entitled to vote thereon.

Section 3.06. Organization. At every meeting of the shareholders, the Chairman of the Board, if there be one, or in the case of vacancy in office or absence of the Chairman of the Board, one of the following officers present in the order stated: the Vice Chairman of the Board, if there be one, the President, the Vice Presidents in their order of rank and seniority, or a person chosen by vote of the shareholders present, shall act as chairman of the meeting. The Secretary, or, in the absence of the Secretary, an Assistant Secretary, or in the absence of both the Secretary and Assistant Secretaries, a person appointed by the Chairman, shall act as secretary of the meeting.

Section 3.07. Voting Rights of Shareholders. Unless otherwise provided in the Articles of Incorporation, every shareholder of the Company shall be entitled to one vote for every share standing in the name of the shareholder in the books of the Company.

Section 3.08. Voting and Other Action by Proxy.

(a) General Rule.

(1) Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person to act for the shareholder by proxy.

(2) The presence of, or vote or other action at a meeting of shareholders, or the expression of consent or dissent to corporate action in writing, by a proxy of a shareholder shall constitute the presence of, or vote or action by, or written consent or dissent of, the shareholder.

(3) Where two or more proxies of a shareholder are present, the Company shall, unless otherwise expressly provided in the proxy, accept as the vote of all shares represented thereby the vote cast by a majority of them and, if a majority of the proxies cannot agree whether the shares represented shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among those persons.

(b) Minimum Requirements. Every proxy shall be executed in writing by the shareholder or by the duly authorized attorney-in-fact of the shareholder and filed with the Secretary of the Company. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective unless written notice thereof has been given to the Secretary. An unrevoked proxy shall not be valid after three years from the date of its execution unless a longer time is expressly provided therein. A proxy shall not be revoked by the death or incapacity of the maker unless, before the vote is counted or the authority is exercised, written notice of the death or incapacity is given to the Secretary of the Company.

(c) Expenses. The Company shall pay the reasonable expenses of solicitation of votes, proxies or consents of shareholders by or on behalf of the board of directors or its nominees for election to the board, including solicitation by professional proxy solicitors and otherwise.

Section 3.09. Voting by Fiduciaries and Pledgees. Shares of the Company standing in the name of a trustee or other fiduciary and shares held by an assignee for the benefit of creditors or by a receiver may be voted by the trustee, fiduciary, assignee or receiver. A shareholder whose shares are pledged shall be entitled to vote the shares unless the shares have been transferred into the name of the pledgee, or a nominee of the pledgee, but nothing in this section shall affect the validity of a proxy given to a pledgee or nominee.

Section 3.10. Voting by Joint Holders of Shares.

(a) General Rule. Where shares of the Company are held jointly or as tenants in common by two or more persons, as fiduciaries or otherwise:

(1) if only one or more of such persons is present in person or by proxy, all of the shares standing in the names of such persons shall be deemed to be represented for the purpose of determining a quorum and the Company shall accept as the vote of all the shares the vote cast by a joint owner or a majority of them; and

(2) If the persons are equally divided upon whether the shares held by them shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among the persons without prejudice to the rights of the joint owners or the beneficial owners thereof among themselves.

(b) Exception. If there has been filed with the Secretary of the Company a copy, certified by an attorney at law to be correct, of the relevant portions of the agreement under which the shares are held or the instrument by which the trust or estate was created or the order of court appointing them or of an order of court directing the voting of the shares, the persons specified as having such voting power in the document latest in date of operative effect so filed, and only those persons shall be entitled to vote the shares but only in accordance therewith.

Section 3.11. Voting by Corporations.

(a) Voting by Corporate Shareholders. Any corporation that is a shareholder of this Company may vote at meetings of shareholders of this Company by any of its officers or agents, or by proxy appointed by any officer or agent, unless some other person, by resolution of the board of directors of the other corporation or a provision of its Articles of Incorporation or Bylaws, a copy of which resolution or provision certified to be correct by one of its officers has been filed with the Secretary of this Company, is appointed its general or special proxy in which case that person shall be entitled to vote the shares.

Section 3.12. Determination of Shareholders of Record.

(a) Fixing Record Date. The board of directors may fix a time prior to the date of any meeting of shareholders as a record date for the determination of the shareholders entitled to notice of, or to vote at, the meeting, which time, except in the case of an adjourned meeting, shall be not more than 60 days prior to the date of the meeting of shareholders. Only shareholders of record on the date fixed shall be so entitled notwithstanding any transfer of shares on the books of the Company after any record date fixed as provided in this subsection. The board of directors may similarly fix a record date for the determination of shareholders of record for any other purpose. When a determination of shareholders of record has been made as provided in this section for purposes of a meeting, the determination shall apply to any adjournment thereof unless the board fixes a new record date for the adjourned meeting.

(b) Determination When No Record Date Fixed . If a record date is not fixed:

(1) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day immediately preceding the day on which the meeting is held.

(2) The record date for determining those shareholders entitled to express consent or dissent to corporate action in writing without a meeting, when prior action by the board of directors is not necessary, shall be the close of business on the day on which the first written consent or dissent is filed with the Secretary of the Company.

(3) The record date for determining shareholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

Section 3.13. Voting Lists .

(a) General Rule . The officer or agent having charge of the transfer books for shares of the Company shall make a complete list of the shareholders entitled to vote at any meeting of shareholders, arranged in alphabetical order, with the address of and number of shares held by each. The list shall be produced and kept open at the time and place of the meeting and be subject to the inspection of any shareholder during the meeting for the purposes thereof.

(b) Effect of List . Failure to comply with the requirements of this Section shall not affect the validity of any action taken at a meeting prior to a demand at the meeting by any shareholder entitled to vote thereat to examine the list. The original share register or transfer book, or a duplicate thereof kept at the Registered Office of the Company, or at such other place as determined by the board of directors, shall be prima facie evidence as to who are the shareholders entitled to examine the list or share register or transfer book or to vote at any meeting of shareholders.

Section 3.14. Judges of Election .

(a) Appointment . In advance of or at any meeting of shareholders of the Company, the board of directors may appoint judges of election, who need not be shareholders, to act at the meeting or any adjournment thereof. If judges of election are not so appointed, the presiding officer of the meeting may, and on the request of any shareholder shall, appoint judges of election at the meeting. The number of judges shall be two. A person who is a candidate for an office to be filled at a meeting shall not act as a judge.

(b) Vacancies . In case any person appointed as a judge fails to appear or refuses to act, the vacancy may be filled by appointment made by the board of directors in advance of the convening of the meeting or at the meeting by the presiding officer.

(c) Duties . The judges of election shall determine the number of shares outstanding and voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with nominations by shareholders and the right to vote, count and tabulate all votes, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The judges of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

(d) Report . On request of the presiding officer of the meeting or any shareholder, the judges shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them. Any such report or certificate shall be prima facie evidence of the facts stated therein.

Section 3.15. Consent of Shareholders in Lieu of Meeting . Any action required or permitted to be taken at a meeting of the shareholders or of a class of shareholders may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto signed by all the shareholders who would be entitled to vote at a meeting for such purpose shall be filed with the minutes of the proceedings of the shareholders of the Company.

Section 3.16. Minors as Securityholders . The company may treat a minor who holds shares or obligations of the Company as having capacity to receive and empower others to receive dividends, interest, principal and other payments or distributions, to vote or express consent or dissent and to make elections and exercise rights relating to such shares or obligations unless, in the case of payments or distributions on shares, the corporate officer responsible for maintaining the list of shareholders or the transfer agent of the Company or, in the case of payments or distributions on obligations, the Treasurer or paying officer or agent has received written notice that the holder is a minor.

## ARTICLE IV
Board of Directors

Section 4.01. Powers; Personal Liability .

(a) General Rule . Unless otherwise provided by statute all powers vested by law in the Company shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under the direction of the board of directors.

(b) Notation of Dissent . A director who is present at a meeting of the board of directors, or of a committee of the board of directors, at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his or her dissent is entered in the minutes of the meeting or unless the director files a written dissent to the action with the secretary of the meeting before the adjournment thereof or transmits the dissent in writing to the Secretary of the Company immediately after the adjournment of the meeting. The right to dissent shall not apply to a director who voted in favor of the action. Nothing in this Section shall bar a director from asserting that the minutes of the meeting incorrectly omitted his or her dissent if, promptly upon receipt of a copy of such minutes, the director notifies the Secretary, in writing, of the asserted omission or inaccuracy.

Section 4.02. Qualifications and Selection of Directors .

(a) Qualifications . Each director of the Company shall be a natural person of full age who need not be a resident of the State of Nevada or a shareholder of the Company.

(b) Power to Select Directors . Except as otherwise provided in these Bylaws, directors of the Company shall be elected by the shareholders.

(c) Nomination of Candidates . Subject to the rights of any class or series of stock having a preference over the common stock as to dividends or upon dissolution to elect directors under specified circumstances, nominations for election of directors may be made by any shareholder entitled to vote for the election of directors only if notice of such shareholder’s intent to nominate a director at the meeting is given by the shareholder and received by the Secretary of the Corporation in the manner and within the time specified herein. Notice must be received by the Secretary of the Corporation not less than 150 days prior to the date fixed for the Annual Meeting of shareholders pursuant to these Bylaws; provided, however, that if directors are to be elected by the shareholders at any other time, notice must be received by the Secretary of the Corporation not later than the seventh day following the day on which notice of the meeting was first mailed to shareholders. The notice may either be delivered or may be mailed to the Secretary of the Corporation by certified or registered mail, return receipt requested.

The notice shall be in writing and shall contain:

(i) the name and residence of such shareholder;

(ii) a representation that the shareholder is a holder of voting stock of the Corporation and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

(iii) such information regarding each nominee as would have been required to be included in a proxy statement filed pursuant to Regulation 14A of the rules and regulations established by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (or pursuant to any successor act or regulation) had proxies been solicited with respect to such nominee by the management or Board of Directors of the Corporation; and

(iv) the consent of each nominee to serve as director of the Corporation if so elected.

The Chairman of the meeting may, if the facts warrant, determine and declare to the meeting that any nomination made at the meeting was not made in accordance with the foregoing procedures and, in such event, the nomination shall be disregarded.

(d) Election of Directors . In elections for directors, the candidates receiving the highest number of votes from each class or group of classes, if any, entitled to elect directors separately up to the number of directors to be elected by the class or group of classes shall be elected. If at any meeting of shareholders, directors of more than one class are to be elected, each class of directors shall be elected in a separate election.

Section 4.03 Number and Term of Office .

(a) Number . The board of directors shall consist of such number of directors, not less than three nor more than nine, as may be determined from time to time by resolution of the board of directors. The Board of Directors shall be divided into three classes, each class of which shall be as nearly equal in number as possible, the term of office of at least one class shall expire in each year, and the members of a class shall not be elected for a shorter period than one year, or for a longer period than three years. One-third (or the nearest approximation thereto) of the number of the Board of Directors, determined as aforesaid, shall be elected at each Annual Meeting of the shareholders by a meeting plurality vote, for terms to expire at the third subsequent meeting of shareholders at which directors are elected.

(b) Term of Office . Each director shall hold office until the expiration of the term for which he or she was selected and until a successor has been elected and qualified or until his or her earlier death, resignation or removal. A decrease in the number of directors shall not have the effect of shortening the term of any incumbent director.

(c) Resignation . Any director may resign at any time upon written notice to the Company. The resignation shall be effective upon receipt thereof by the Company or at such subsequent time as shall be specified in the notice of resignation.

Section 4.04. Vacancies .

(a) General Rule . All vacancies in the board of directors, whether caused by resignation, death, or otherwise, may be filled by the remaining director or a majority of the remaining directors attending a stated special meeting called for that purpose even though less than a quorum be present; provided, however, in the event of a change in control of the Company, all vacancies in the Board of Directors shall be filled by the directors who where directors prior to the change in control (the “Continuing Directors”). A director thus elected to fill any vacancy shall hold office for the unexpired term of his predecessor and until his successor is elected and qualifies.

For purposes of these Bylaws, a “change in control of the Company” shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”). Such a change in control shall be deemed to have occurred if (a) any “person” as such term is used in Sections 13(d) and 14(d) of the Exchange Act, other than the Company or any “person” who is a director or officer of the Company, is or becomes the “beneficial owner” as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company’s then outstanding securities, or (b) during any twelve month period individuals who at the beginning of such period constitute the Board of Directors of the Company cease, for any reason, to constitute at least a majority, unless the election of each director who was not a director at the beginning of the period has been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of the period.

(b) Action by Resigned Directors . When a director resigns from the board of directors effective at a future date, the directors then in office, including those who have so resigned, shall have power by applicable vote to fill the vacancies, the vote thereon to take effect when the resignations become effective.

Section 4.05. Removal of Directors .

(a) Removal by the Shareholders . The entire board of directors, or any class of the board of directors, or any individual director may be removed from office by a vote of two-thirds of the shareholders entitled to vote thereon without assigning any cause. In case the board of directors of a class thereof or any one or more directors are so removed, new directors may be elected at the same meeting.

Section 4.06. Place of Meetings . Meetings of the board of directors may be held at the Registered Office of the Company, or at such place as the board of directors may from time to time appoint or as may be designated in the notice of the meeting.

Section 4.07. Organization of Meetings . At every meeting of the board of directors, the Chairman, if there be one, or, in the case of a vacancy in the office or absence of the Chairman of the board, one of the following officers present in the order stated: the Vice Chairman, if there be one, the President, the Vice Presidents in their order of rank and seniority, or a person chosen by a majority of the directors present, shall act as chairman of the meeting. The Secretary, or, in the absence of the Secretary, an Assistant Secretary, or in the absence of the Secretary and the Assistant Secretaries, any person appointed by the chairman of the meeting, shall act as secretary of the meeting.

Section 4.08. Regular Meetings . Regular meetings of the board of directors shall be held at such time and place as shall be designated from time to time by resolution of the board of directors.

Section 4.09. Special Meetings . Special meetings of the board of directors shall be held whenever called by the Chairman or by a majority of directors in office.

Section 4.10. Quorum of and Action by Directors .

(a) General Rule . A majority of the directors in office shall be necessary to constitute a quorum for the transaction of business and the acts of a majority of the directors present and voting at a meeting where a quorum is present shall be the acts of the board of directors.

(b) Action by Written Consent . Any action required or permitted to be taken at a meeting of the directors may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto signed by all of the directors in office is filed with the minutes of the proceedings of the board of directors.

Section 4.11. Executive and Other Committees .

(a) Establishment and Powers . The board of directors may, by resolution adopted by a majority of the directors in office, establish one or more committees to consist of one or more directors of the Company. Any committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all of the powers and authority of the board of directors except that a committee shall not have any power or authority as to the following:

(1) the submission to shareholders of any action requiring approval of shareholders under the laws of the State of Nevada;

(2) the creation or filling of vacancies in the board of directors;

(3) the adoption, amendment or repeal of these Bylaws;

(4) the amendment or repeal of any resolution of the board of directors that by its terms is amendable or repealable only by the board of directors; and

(5) action or matters committed by a resolution of the board of directors to another committee of the board of directors.

(b) Alternate Committee Members . The board of directors may designate one or more directors as alternate members of any committee who may replace any absent or disqualified member at any meeting of the committee or for the purposes of any written action by the committee. In the absence or disqualification of a member and alternate member or members of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another director to act at the meeting in the place of the absent or disqualified member.

(c) Term . Each committee of the board of directors shall serve at the pleasure of the board of directors.

(d) Committee Procedures . The term “board of directors” when used in any provision of these Bylaws relating to the organization or procedures of or the manner of taking action by the board of directors, shall be construed to include and refer to any executive or other committee of the board of directors.

Section 4.12. Compensation . The board of directors shall have the authority to fix the compensation of directors for their services as directors and a director may be a salaried officer of the Company.

**ARTICLE V**
Officers

Section 5.01. Officers Generally .

(a) Number, Qualifications and Designation . The officers of the Company shall be the, President one or more Vice Presidents, Secretary, Treasurer and such other officers as may be elected in accordance with the provisions of Section 5.03. Officers may but need not be directors or shareholders of the Company. The President, Treasurer, Secretary and all other officers of the Company shall be natural persons of full age. The board of directors may elect from among its members a Chairman and Vice Chairman who shall be officers of the Company. Any number of offices may be held by the same person.

(b) Bonding . The Company may secure the fidelity of any or all of its officers by bond or otherwise.

(c) Standard of Care . Except as otherwise provided in the Articles of Incorporation, an officer shall perform his or her duties as an officer in good faith, in a manner he or she reasonably believes to be in the best interests of the Company and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. A person who so performs his or her duties shall not be liable by reason of having been an officer of the Company.

Section 5.02. Election, Term of Office and Resignations .

(a) Election and Term of Office . The officers of the Company, except those elected by delegated authority pursuant to Section 5.03, shall be elected annually by the board of directors and each such officer shall hold office for a term of one year and until a successor has been selected and qualified or until his or her earlier death, resignation or removal. The board of directors, as soon as may be done after each annual meeting of stockholders and election, shall choose a President, Secretary and Treasurer and from time to time one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers, and may appoint such other officers, agents and employees as it may deem proper. Any two or more offices may be held by the same person.

(b) Resignations . Any officer may resign at any time upon written notice to the Company. The resignation shall be effective upon its receipt by the Company or at such subsequent time as may be specified in the notice of resignation.

Section 5.03. Other Officers, Committees and Agents . The board of directors may from time to time elect such other officers and appoint such committees, employees or other agents as the business of the Company may require, including a Chief Financial Officer, an Executive Vice President, a Chief Operating Officer and one or more Assistant Secretaries, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws, or as the board of directors may from time to time determine. The board of directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents.

Section 5.04. Removal of Officers and Agents . Any officer or agent of the Company may be removed by the board of directors with or without cause. The removal shall be without prejudice to the contract rights, if any, of any person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 5.05. Vacancies . A vacancy in any office because of death, resignation, removal, disqualification, or any other cause may be filled by the board of directors or by the officer or committee to which the power to fill such office has been delegated pursuant to Section 5.03, as the case may be, and if the office is one for which these Bylaws prescribe a term, shall be filled for the unexpired portion of the term.

Section 5.06. Authority . All officers of the Company, as between themselves and the Company, shall have such authority and perform such duties in the management of the Company as may be provided by or pursuant to resolutions or orders of the board of directors or, in the absence of controlling provisions in the resolutions or orders of the board of directors, as may be determined by or pursuant to these Bylaws.

Section 5.07. Chairman and Vice Chairman of the Board . The Chairman, or in the absence of the Chairman, the Vice Chairman, shall preside at all meetings of the shareholders and of the board of directors, and shall perform such other duties as may from time to time be requested by the board of directors.

Section 5.08. President . The President shall be the chief executive officer of the Company and shall have general supervision over its business and subject however, to the control of the board of directors. The President shall sign, execute, and acknowledge, in the name of the Company, deeds, mortgages, bonds, contracts or other instruments authorized by the board of directors, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors, these Bylaws or law to some other officer or agent of the Company and in general shall perform all duties incident to the office of President and such other duties as from time to time may be assigned by the board of directors.

Section 5.09. Vice Presidents . The Vice Presidents shall perform the duties of the President in the absence of the President and such other duties as may from time to time be assigned to them by the board of directors or the President. The Vice Presidents may sign, execute, and acknowledge, in the name of the Company, deeds, mortgages, bonds, contracts or other instruments authorized by the board of directors, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors, these Bylaws or law to some other officer or agent of the Company.

Section 5.10. Secretary . The Secretary or an Assistant Secretary shall attend all meetings of the shareholders and board of directors and record the votes of shareholders and directors, the minutes of the meetings of shareholders, board of directors and of committees of the board of directors in a book or books to be kept for that purpose; ensure notices are given and records and reports properly kept and filed by the Company as required by law; serve as custodian of the seal of the Company and ensure it is affixed to all documents to be executed on behalf of the Company under seal; and, in general, perform all duties incident to the office of Secretary and such other duties as may from time to time be assigned by the board of directors or the President.

Section 5.11. Treasurer . The Treasurer shall have or provide for the custody of the funds or other property of the Company; collect and receive or provide for the collection and receipt of moneys earned by or in any manner due to or received by the Company; deposit all funds in his or her custody as Treasurer in such banks or other places of deposit as the board of directors may from time to time designate; whenever so required by the board of directors, render an account showing all transactions as Treasurer, and the financial condition of the Company; and, in general, discharge such other duties as may from time to time be assigned by the board of directors or the President. The Treasurer may sign, execute and acknowledge in the name of the Company deeds, mortgages, bonds, contracts or other instruments authorized by the board of directors, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors, these Bylaws or law to some other officer or agent of the Company.

Section 5.12. Salaries . The salaries of the officers elected by the board of directors shall be fixed from time to time by the board of directors or by such officer as may be designated by resolution of the board of directors. The salaries or other compensation of any other officers, employees and other agents shall be fixed from time to time by the officer or committee to which the power to elect such officers or to retain or appoint such employees or other agents has been delegated pursuant to Section 5.03. No officer shall be prevented from receiving a salary or other compensation by reason of the fact the officer is also a director of the Company.

## ARTICLE VI
Certificates of Stock Transfer, Etc.

Section 6.01 Share Certificates .

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

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

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

(b) Share Register . The share register or transfer books and blank share certificates shall be kept by the Secretary or by any transfer agent or registrar designated by the board of directors for that purpose.

Section 6.02. Issuance . The share certificates of the Company shall be numbered and registered in the share register or transfer books of the Company as they are issued. They shall be executed in such manner as the board of directors shall determine.

Section 6.03. Transfer . Transfers of shares shall be made on the share register or transfer books of the Company upon surrender of the certificate therefore, endorsed by the person named in the certificate or by an attorney lawfully constituted in writing; provided, that in the case of shares that are not represented by a certificate, no delivery of a certificate shall be required and transfers shall be made on the share register or transfer books of the Company only by the record holder of such shares or by an attorney lawfully constituted in writing. No transfers shall be made inconsistent with the provisions of the Uniform Commercial Code, its amendments and supplements.

Section 6.04. Record Holder of Shares . The Company shall be entitled to treat the person in whose name any share or shares of the Company stand on its books as the absolute owner thereof, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person.

Section 6.05. Lost, Destroyed or Mutilated Certificates . The holder of any shares of the Company shall immediately notify the Company of any loss, destruction or mutilation of the certificate therefor, and the board of directors may, in its discretion, cause a new certificate or certificates to be issued to such holder, in case of mutilation of the certificate, upon the surrender of the mutilated certificate or in case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction, and if the board of directors shall so determine, the deposit of a bond in such form and in such sum, and with such surety or sureties, as it may direct.

## ARTICLE VII
Miscellaneous

Section 7.01. Corporate Seal . The Company shall have a corporate seal in the form of a circle containing the name of the Company, the year of its incorporation and such other details as may be approved by the board of directors.

Section 7.02. Checks . All checks, notes, bills of exchange or other orders in writing shall be signed by such person or persons as the board of directors or any person authorized by resolution of the board of directors may from time to time designate.

Section 7.03. Contracts . Except as otherwise provided in the case of transactions which require action by the shareholders, the board of directors may authorize any officer or agent to enter into any contract or to execute or deliver any instrument on behalf of the Company, and such authority may be general or confined to specific instances.

Section 7.04. Interested Directors or Officers; Quorum .

(a) General Rule . A contract or transaction between the Company and one or more of its directors or officers or between the Company and another corporation, partnership, joint venture, trust or other enterprise in which one or more of its directors or officers are directors or officers or have a financial or other interest shall not be void or voidable solely for that reason, or solely because the director or officer is present at or participates in the meeting of the board of directors that authorizes the contract or transaction, or solely because his, her or their votes are counted for that purpose, if:

(1) the material facts as to the relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors and it authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors even though the disinterested directors are less than a quorum; or

(2) the material facts as to his or her relationship or interest and as to the contract or transactions are disclosed or are known to the shareholders entitled to vote thereon and the contract or transaction is specifically approved in good faith by vote of those shareholders; or

(3) the contract or transaction is fair as to the Company as of the time it is authorized, approved or ratified by the board of directors or the shareholders.

(b) Quorum . Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors which authorizes a contract or transaction specified in subsection (a) above.

Section 7.05. Deposits . All funds of the Company shall be deposited from time to time to the credit of the Company in such banks, trust companies or other depositaries as the board of directors may approve or designate, and all such funds shall be withdrawn only upon checks signed by such one or more officers or employees as the board of directors shall from time to time determine.

Section 7.06. Corporate Records . The Company shall keep complete and accurate books and records of account, minutes of the proceedings of the incorporators, shareholders and directors and a share register giving the names and addresses of all shareholders and the number and class of shares held by each. The share register or a copy thereof shall be kept at the Registered Office of the Company, and its principal place of business wherever situated or at the office of its registrar or transfer agent. Any books, minutes or other records may be in written form or any other form capable of being converted into written form within a reasonable time.

Section 7.07. Amendment of Bylaws . These Bylaws may be amended or repealed, or new Bylaws adopted, either (i) by vote of the shareholders at any duly organized annual or special meeting of shareholders, but subject to the provisions of the Articles of Incorporation, or (ii) by vote of a majority of the board of directors of the Company in office at any regular or special meeting of directors. Any change in these Bylaws shall take effect when adopted unless otherwise provided in the resolution effecting the change.

**EXHIBIT 10 (o)**

## RCM TECHNOLOGIES, INC.

### Compensation Arrangements for Named Executive Officers

Rocco Campanelli. Executive Vice President . The Company on an at-will basis pursuant to an oral agreement employs Mr. Campanelli. In addition to standard medical, disability, life insurance, 401(k) and employee stock incentive benefits available to all eligible employees, he is eligible for the Executive Medical Supplementary Plan available to the named executive officers, the Executive Stock Option Plan available to officers and key employees and an auto allowance available to certain middle managers and above. Mr. Campanelli received a base salary of $225,000 in 2008. His bonus compensation is comprised of certain percentages of divisional operating income above certain threshold targets plus any discretionary bonus awarded by the Compensation Committee of the Board, if any.

Kevin D. Miller. Chief Financial Officer, Treasurer and Secretary. 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 $257,000 in 2008. 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 27, 2008, December 29, 2007 and December 30, 2006**
*(Dollars in thousands, except share and per share amounts, unless otherwise indicated)*

| | December 27, 2008 | December 29, 2007 | December 30, 2006 |
|---|---|---|---|
| **Diluted earnings** | | | |
| Net income applicable to common stock | $ (39,805) | $ 6,769 | $ 6,356 |
| | | | |
| **Shares** | | | |
| Weighted average number of common shares outstanding | 12,647,127 | 11,970,042 | 11,773,301 |
| Common stock equivalents | — | 514,597 | 261,364 |
| | | | |
| Total | 12,647,127 | 12,484,639 | 12,034,665 |
| | | | |
| **Diluted earnings per common share** | $ (3.15) | $ .54 | $ .53 |
| | | | |
| **Basic** | | | |
| Net income applicable to common stock | $ (39,805) | $ 6,769 | $ 6,356 |
| | | | |
| **Shares** | | | |
| Weighted average number of common shares outstanding | 12,647,127 | 11,970,042 | 11,773,301 |
| | | | |
| **Basic earnings per common share** | $ (3.15) | $ .57 | $ .54 |

**EXHIBIT 21**

## SUBSIDIARIES OF THE REGISTRANT

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

**EXHIBIT 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors
RCM Technologies, Inc.

We have issued our report dated March 24, 2009 with respect to the consolidated financial statements and related schedules which are included in the Annual Report of RCM Technologies, Inc. and Subsidiaries on Form 10-K for the year ended December 27, 2008. We hereby consent to the incorporation by reference of said report in the Registration Statements of RCM Technologies, Inc. on Forms S-8 (File No. 333-145904, effective September 6, 2007, File No. 333-61306, effective April 21, 1993, File No. 333-80590, effective June 22, 1994, File No. 333-48089, effective March 17, 1998, File No. 333-52206, effective December 19, 2000 and File No. 333-52480, effective December 21, 2000).

/s/Grant Thornton LLP
Grant Thornton LLP
Philadelphia, Pennsylvania
March 24, 2009

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officer(s) 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, 2009

/s/ Leon Kopyt

Leon Kopyt
Chairman and Chief Executive Officer

**EXHIBIT 31.2**

## CERTIFICATION

I, Kevin D. Miller, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officer(s) 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, 2009

/s/ Kevin D. Miller

Kevin D. Miller
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 27, 2008, 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, 2009

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 27, 2008, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kevin D. Miller, 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/ Kevin D. Miller

Kevin D. Miller
Chief Financial Officer
March 23, 2009

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.