RCM TECHNOLOGIES INC
Form 10-Q
May 04, 2006

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 1, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 1-10245

RCM TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Nevada	95-1480559
(State of Incorporation)	(I.R.S. Employer Identification No.)

2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613
(Address of Principal Executive Offices) (Zip Code)

(856) 486-1777
(Registrant's Telephone Number, Including Area Code)

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

YES X NO

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

Large Accelerated Filer ____ Accelerated Filer ____ Non-Accelerated Filer X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO X

Indicate the number of shares outstanding of the Registrant's class of common stock, as of the latest practicable date.

Common Stock, $0.05 par value, 11,768,244 shares outstanding as of May 3, 2006.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
April 1, 2006 and December 31, 2005

ASSETS

	April 1, 2006
	(Unaudited)
Current assets	
Cash and cash equivalents	$4,457,114
Accounts receivable, net of allowance for doubtful accounts of $1,786,000 (April 1, 2006) and $1,792,000 (December 31, 2005), respectively	49,278,132
Restricted cash	8,658,481
Prepaid expenses and other current assets	2,227,368
Deferred tax assets	4,012,340
Total current assets	68,633,435
Property and equipment, at cost	
Equipment and leasehold improvements	9,582,755
Less: accumulated depreciation and amortization	5,082,505
	4,500,250
Other assets	
Deposits	183,807
Goodwill	37,660,320
Intangible assets, net of accumulated amortization of $476,908 (April 1, 2006) and $405,376 (December 31, 2005), respectively	737,092
	38,581,219

Total assets	$111,714,904

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
April 1, 2006 and December 31, 2005

LIABILITIES AND STOCKHOLDERS' EQUITY

	April 1, 2006
	(Unaudited)
Current liabilities	
Line of credit	$7,100,000
Accounts payable and accrued expenses	17,103,948
Accrued compensation	6,620,922
Payroll and withheld taxes	894,380
Income taxes payable	3,108,232
Total current liabilities	34,827,482
Stockholders' equity	
Preferred stock, $1.00 par value; 5,000,000 shares authorized; no shares issued or outstanding	
Common stock, $0.05 par value; 40,000,000 shares authorized; 11,753,861 and 11,728,261 shares issued and outstanding at April 1, 2006 and December 31, 2005, respectively	587,693
Accumulated other comprehensive income	966,825
Additional paid-in capital	100,636,477
Accumulated deficit	(25,303,573)
	76,887,422
Total liabilities and stockholders' equity	$111,714,904

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Thirteen Weeks Ended April 1, 2006 and April 2, 2005
(Unaudited)

	2006
Revenues	$47,053,786
Cost of services (1)	35,022,794
Gross profit	12,030,992
Operating costs and expenses	
Selling, general and administrative (2)	10,086,022
Depreciation	281,187
Amortization	71,532
	10,438,741
Operating income	1,592,251
Other expenses	
Interest expense, net of interest income	65,351
Loss on foreign currency transactions	13,106
	78,457
Income before income taxes	1,513,794
Income taxes	702,469
Net income	811,325
Other comprehensive (loss) income	
Foreign currency translation adjustment	(14,947)
Comprehensive income	$796,378

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME - (Continued)
Thirteen Weeks Ended April 1, 2006 and April 2, 2005
(Unaudited)

	2006
Basic earnings per share	$.07
Weighted average number of common shares outstanding	11,733,997
Diluted earnings per share	$.07
Weighted average number of common and common equivalent shares outstanding (includes dilutive securities relating to options of 273,173 and 198,414 in 2006 and 2005, respectively)	12,007,170

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Thirteen Weeks Ended April 1, 2006
(Unaudited)

	Common Stock	Accumulated Other Comprehensive Income	Additional Paid-in Capital

	Shares	Amount		
Balance, December 31, 2005	11,728,261	$586,413	$981,772	$100,235,338
Exercise of stock options	25,600	1,280		96,172
Translation adjustment			(14,947)	
Stock based compensation expense				304,967
Net income				
Balance, April 1, 2006	11,753,861	$587,693	$966,825	$100,636,477

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Thirteen Weeks Ended April 1, 2006 and April 2, 2005
(Unaudited)

	2006
Cash flows from operating activities:	
Net income	$811,325
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	352,719
Stock-based compensation expense	304,967
Provision for losses on accounts receivable	(6,000)
Changes in assets and liabilities:	
Accounts receivable	(4,341,856)
Restricted cash	(86,417)
Prepaid expenses and other current assets	613,332
Accounts payable and accrued expenses	2,124,823
Accrued compensation	(466,975)
Payroll and withheld taxes	27,104
Income taxes payable	(1,141,547)
Total adjustments	(2,619,850)

Net cash used in operating activities	($1,808,525)

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
Thirteen Weeks Ended April 1, 2006 and April 2, 2005
(Unaudited)

	2006
Cash flows from investing activities:	
Property and equipment acquired	($760,937)
(Increase) decrease in deposits	(16,992)
Net cash used in investing activities	(777,929)
Cash flows from financing activities:	
Exercise of stock options	97,452
Net borrowings on line of credit	3,200,000
Net cash provided by financing activities	3,297,452
Effect of exchange rate changes on cash and cash equivalents	(14,947)
Increase (decrease) in cash and cash equivalents	696,051
Cash and cash equivalents at beginning of period	3,761,063
Cash and cash equivalents at end of period	$4,457,114
Supplemental cash flow information:	
Cash paid for:	
Interest expense	$85,723
Income taxes	$501,636

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

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

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1. General

The accompanying consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Certain information and footnote disclosures, which are normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to SEC rules and regulations. The information reflects all normal and recurring adjustments that in the opinion of management are necessary for a fair presentation of the consolidated financial position of the Company and its consolidated results of operations for the interim periods set forth herein. The results for the thirteen weeks ended April 1, 2006 are not necessarily indicative of the results to be expected for the full year.

2. Fiscal Year

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. A 53-week year occurs periodically. The fiscal year ended December 31, 2005 was a 52-week reporting year. The first quarter of 2005, the 2005 fiscal year and the first quarter of 2006 ended on the following dates, respectively:

Period Ending	Weeks in Quarter
April 2, 2005	Thirteen
December 31, 2005	Thirteen
April 1, 2006	Thirteen

3. Use of Estimates and Uncertainties

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

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

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

4. Acquisition

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

4. Acquisition (Cont'd)

In connection with the acquisition, the Company is obligated to pay contingent consideration to the selling shareholders upon the acquired business achieving certain earnings targets over periods ranging from two to three years. In general, the contingent consideration amounts fall into two tiers: (a) Tier 1 ("Deferred Consideration") - amounts are due, provided that the acquisition achieves a base level of earnings which has been determined at the time of acquisition and (b) Tier 2 ("Earnouts") - amounts are not fixed and are based on the growth in excess of the base level earnings. The Deferred Consideration payments are anticipated to be approximately as follows:

Year Ending (In thousands)	Amount
December 30, 2006 (Nine Months)	$700
December 29, 2007	700
December 27, 2008	700
	$2,100

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

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

	Thirteen Weeks Ended	
	April 1, 2006 (Actual)	April 2, 2005 (Proforma)

Revenues	$47,053,786	$45,274,803
Operating income	1,592,251	1,615,834
Net income	$811,325	$918,420
Earnings per share	$.07	$.08

5. New Accounting Standards

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

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

6. Line of Credit

The Company and its subsidiaries are party to a loan agreement, with Citizens Bank of Pennsylvania, administrative agent for a syndicate of banks, which provides for a $25 million Revolving Credit Facility (the "Revolving Credit Facility"). Availability of credit under the Revolving Credit Facility is based on 80% of the aggregate amount of accounts receivable for which not more than 90 days have elapsed since the date of the original invoice. Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London

Interbank Offered Rate), plus applicable margin or (ii) the agent bank's prime rate.

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

The Revolving Credit Facility expires in August 2006. Management of the Company has commenced negotiations for renewal or replacement of the Revolving Credit Facility. The weighted average interest rates under the Revolving Credit Facility for the thirteen weeks ended April 1, 2006 and April 2, 2005 were 7.6% and 2.92%, respectively. The amounts outstanding under the Revolving Credit Facility at April 1, 2006 and December 31, 2005 were $7.1 million and $3.9 million, respectively. At April 1, 2006, the Company had availability for additional borrowing under the Revolving Credit Facility of $17.8 million.

7. Interest (Expense), Net

Interest (expense), net consisted of the following:

	Thirteen Weeks	
	April 1, 2006	April 2, 2005
Interest expense	($168,737)	($128,260)
Interest income	103,386	14,520
	($65,351)	($123,740)

8. Goodwill and Intangibles

SFAS 142 requires the Company to perform a goodwill impairment test on at least an annual basis. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducts its annual goodwill impairment test as of November 30. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill. Future changes in the industry could impact the market multiples of comparable businesses, and consequently could impact the results of future annual impairment tests. There were no events during the thirteen weeks ended April 1, 2006 that have indicated a need to perform the impairment test prior to the Company's annual test date.

There are no changes in the carrying amount of goodwill for the thirteen weeks ended April 1, 2006.

9. Accounts Payable

Accounts payable and accrued expenses consisted of the following at April 1, 2006 and December 31, 2005:

	April 1, 2006	December 31, 2005
Accounts payable - trade	$8,281,486	$5,649,920
Due to sellers	210,964	794,894
Reserve for litigation	8,611,498	8,534,313
Total	$17,103,948	$14,979,127

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

10. Stockholders' Equity

Common Stock Reserved

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

	April 1, 2006	December 31, 2005
Exercise of options outstanding	1,902,883	1,935,483
Future grants of options	26,306	36,486
Total	1,929,189	1,971,969

11. Stock - Based Compensation

Effective with this fiscal year, the Company follows SFAS 123R, "Share-Based Payment." SFAS 123R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued.

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

In addition to the accounting standard that sets forth the financial reporting objectives and related accounting principles, SFAS 123R includes an appendix of implementation guidance that provides expanded guidance on measuring the fair value of share-based payment awards.

SFAS 123R replaces FAS 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that SFAS 123 permitted entities the option of continuing to apply the guidance in Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. The impact of SFAS 123R, if it had been in effect, on the net earnings and related per share amounts of our fiscal years ended in December 31, 2005, January 1, 2005 and December 27, 2003 were disclosed in Note 1 Summary of Significant Accounting Policies - Stock-Based Compensation of our Financial Statements included in our Form 10-K for the fiscal year ended December 31, 2005.

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

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11. Stock - Based Compensation (Continued)

At April 1, 2006, the Company has four share-based employee compensation plans. Share-based compensation of $305,000, or $.03 per share, was recognized for the thirteen weeks ended April 1, 2006. The Company anticipates that share-based compensation will not exceed $966,000 or approximately $.08 per share for the year ending December 30, 2006. Reported net income, adjusting for share-based compensation that would have been recognized for the thirteen weeks ended April 2, 2005 if SFAS 123R had been followed, is (in thousands, except per share amounts):

	Amount
Net income, as reported	$833
Less: stock-based compensation costs determined under fair value based method for all awards	60
Adjusted net income	$773
Earnings per share of common stock-basic:	
As reported	$.07
Share-based compensation costs	
Adjusted net income	$.07
Earnings per share of common stock-diluted:	
As reported	$.07
Share-based compensation costs	
Adjusted net income	$.07

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model. There were no options granted during the thirteen weeks ended April 1, 2006 and April 2, 2005.

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

As of April 1, 2006, we have approximately, $1.8 million of total unrecognized compensation cost related to non-vested awards granted under our various share-based plans, which we expect to recognize over a weighted-average period of 1.9 years. These amounts do not include the cost of any additional options that may be granted in future periods nor any changes in the Company's forfeiture rate.

We received cash from options exercised during the first three months of fiscal years 2006 and 2005 of $97,452 and $6,884, respectively. The impact of these cash receipts is included in financing activities in the accompanying consolidated statements of cash flows.

11. Stock - Based Compensation (Continued)

Incentive Stock Option Plans

1992 Incentive Stock Option Plan (the 1992 Plan)

The 1992 Plan, approved by the Company's stockholders in April 1992, and amended in April 1998, provided for the issuance of up to 500,000 shares of common stock per individual to officers, directors, and key employees of the Company and its subsidiaries, through February 13, 2002, at which time the 1992 Plan expired. The options issued were intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code. The option terms were not permitted to exceed ten years and the exercise price was not permitted to be less than 100% of the fair market value of the shares at the time of grant. The Compensation Committee of the Board of Directors determined the vesting period at the time of grant for each of these options. As of April 1, 2006, options to purchase 83,455 shares of common stock were outstanding.

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

The 1994 Plan, approved by the Company's stockholders in May 1994, and amended in April 1998, provided for issuance of up to 110,000 shares of common stock to non-employee directors of the Company through February 19, 2004, at which time the 1994 Plan expired. Options granted under the 1994 Plan were granted at fair market value at the date of grant, and the exercise of options is contingent upon service as a director for a period of one year. Options granted under the 1994 Plan terminate when an optionee ceases to be a Director of the Company. As of April 1, 2006, options to purchase 70,000 shares of common stock were outstanding.

1996 Executive Stock Option Plan (the 1996 Plan)

The 1996 Plan, approved by the Company's stockholders in August 1996 and amended in April 1999, provides for issuance of up to 1,250,000 shares of common stock to officers and key employees of the Company and its subsidiaries through January 1, 2006. Options are generally granted at fair market value at the date of grant. The Compensation Committee of the Board of Directors determines the vesting period at the time of grant. As of April 1, 2006, options to purchase 1,131,045 shares of common stock were outstanding.

2000 Employee Stock Incentive Plan (the 2000 Plan)

The 2000 Plan, approved by the Company's stockholders in April 2001, provides for issuance of up to 1,500,000 shares of the Company's common stock to officers and key employees of the Company and its subsidiaries or to consultants and advisors utilized by the Company. The Compensation Committee of the Board of Directors may award incentive stock options or non-qualified stock options, as well as stock appreciation rights, and determines the vesting period at the time of grant. As of April 1, 2006, options to purchase 26,306 shares of common stock were available for future grants, and options to purchase 618,383 shares of common stock were outstanding.

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11. Stock - Based Compensation (Continued)

Employee Stock Purchase Plan

The Company implemented an Employee Stock Purchase Plan (the "Purchase Plan") with shareholder approval, effective January 1, 2002. 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 thirteen weeks ended April 1, 2006 and April 2, 2005, there were no shares issued under the Purchase Plan. As of April 1, 2006, there were 258,958 shares available for issuance under the Purchase Plan.

12. Segment Information

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

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

Thirteen Weeks Ended April 1, 2006	Information Technology	Engineering	Commercial	Corporat
Revenue	$24,703	$11,385	$10,966	
Operating expenses (1) (2)	23,301	11,406	10,402	
EBITDA (1) ((3))	1,402	(21)	564	
Depreciation	130	108	43	
Amortization of intangibles	72			

Operating income	1,200	(129)	521	
Interest expense, net of interest income	34	16	15	
Loss on foreign currency transactions		13		
Income taxes (benefit)	541	(73)	235	
Net income	$625	($85)	$271	
Total assets	$52,963	$26,510	$10,802	$21,
Capital expenditures	$95	$510		$

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

12. Segment Information (Continued)

Thirteen Weeks Ended April 2, 2005	Information Technology	Engineering	Commercial	Corporat
Revenue	$24,652	$11,763	$7,667	
Operating expenses (1)	23,146	11,839	7,394	
EBITDA (1) (3)	1,506	(76)	273	
Depreciation	135	91	34	
Amortization of intangibles				
Operating income (loss)	1,371	(167)	239	
Interest expense, net of interest income	69	33	22	
Loss on foreign currency transactions		4		
Income taxes (benefit)	477	(75)	80	

Net income (loss)	$825	($129)	$137	
Total assets	$48,758	$22,157	$9,102	$18,
Capital expenditures	$51			$

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

12. Segment Information (Continued)

Revenues reported for each operating segment are 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 as of and for the thirteen weeks ended April 1, 2006 and April 2, 2005 are as follows (in thousands):

	Thirteen Weeks Ended	
	April 1, 2006	April 2, 2005
Revenues		
U. S.	$44,902	$40,229
Canada	2,152	3,853
	$47,054	$44,082
Fixed Assets		
U. S.	$4,349	$4,204
Canada	151	221
	$4,500	$4,425

Revenues reported for each operating segment are from external customers.

13. Contingencies

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

The claim relating to the wrongful termination of the employment of one of the plaintiffs and the claims of both plaintiffs concerning the grant of stock options were resolved in binding arbitration in early 2002. A trial on the remaining claims commenced on December 2, 2002 and a verdict was returned on January 24, 2003. On August 4, 2003, the trial judge entered a judgment in favor of the plaintiffs for $7.6 million in damages and awarded plaintiffs $172,000 in post-verdict pre-judgment interest. Post-judgment interest will continue to accrue on the judgment at the rate of 4% per annum in 2006.

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13. Contingencies (Continued)

The Company appealed the judgment entered in the Law Division to the Appellate Division of the Superior Court of New Jersey, and obtained a stay pending appeal of that judgment. In order to secure the stay, the Company made a cash deposit in lieu of bond of $8.3 million with the Trust Fund of the Superior Court of New Jersey. This deposit is recorded as restricted cash on the consolidated balance sheet and earns interest at a rate that approximates the daily federal funds rate. On December 2, 2005, the Appellate Division unanimously affirmed the judgment entered in the Law Division in all respects. On March 30, 2006, the Supreme Court of New Jersey denied the Company's petition for certification of the Appellate Division's judgment for review by the Supreme Court. On April 10, 2006, the Company filed a motion in the Supreme Court seeking reconsideration of that denial; that motion is pending and the timeframe within which the Supreme Court will rule thereon cannot be predicted with any degree of certainty.

In connection with this litigation, the Company accrued $9.7 million of litigation charges at December 31, 2002, which included the jury award of $7.6 million, professional fees of $1.1 million and an estimate of $1.0 million for attorney fees and pre-judgment interest. As of April 1, 2006, the accrued litigation reserve is $8.6 million.

In addition, in November 2002 the Company brought suit in the Superior Court of New Jersey, Law Division, Bergen County, on professional liability claims against the attorneys and law firms who served as its counsel in the above-described acquisition transaction and in its subsequent dealings with the plaintiffs concerning their various relationships with the Company resulting from that transaction. In its lawsuit against the former counsel, the Company is seeking complete indemnification with respect to (1) its costs and counsel fees incurred in defending itself against the claims of the plaintiffs; (2) any sums for which the Company is ultimately determined to be liable to the plaintiffs; and (3) its costs and counsel fees incurred in the prosecution of the legal malpractice action itself. On September 14, 2005, as a consequence of certain procedural constraints imposed by the court, the Company and the various attorney and law firm defendants agreed to the dismissal of the action in Bergen County and the filing of a new action against the same defendants in the Superior Court of New Jersey, Law Division, Morris County. The complaint in the new action, in which the Company has asserted certain additional claims against the defendants, was filed on October 24, 2005. Discovery proceedings in the new action are continuing and a mediation conference is scheduled for May 15, 2006.

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

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Private Securities Litigation Reform Act Safe Harbor Statement

Certain statements included herein and in other reports and public filings made by RCM Technologies, Inc. ("RCM" or the "Company") are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements regarding the adoption by businesses of new technology solutions; the use by businesses of outsourced solutions, such as those offered by the Company in connection with such adoption; and the outcome of litigation (at both the trial and appellate levels) involving the Company. Readers are cautioned that such forward-looking statements, as well as others made by the Company, which may be identified by words such as "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "believe," and similar expressions, are only predictions and are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially from such statements. Such risks and uncertainties include, without limitation: (i) unemployment and general economic conditions affecting the provision of information technology and engineering services and solutions and the placement of temporary staffing personnel; (ii) the Company's ability to continue to attract, train and retain personnel qualified to meet the requirements of its clients; (iii) the Company's ability to identify appropriate acquisition candidates, complete such acquisitions and successfully integrate acquired businesses; (iv) uncertainties regarding pro forma financial information and the underlying assumptions relating to acquisitions and acquired businesses; (v) uncertainties regarding amounts of deferred consideration and earnout payments to become payable to former shareholders of acquired businesses; (vi) adverse effects on the market price of the Company's common stock due to the potential resale into the market of a significant amounts of common stock; (vii) the adverse effect a potential decrease in the trading price of the Company's common stock would have upon the Company's ability to acquire businesses through the issuance of its securities; (viii) the Company's ability to obtain financing on satisfactory terms; (ix) the reliance of the Company upon the continued service of its executive officers; (x) the Company's ability to remain competitive in the markets that it serves; (xi) the Company's ability to maintain its unemployment insurance premiums and workers compensation premiums; (xii) the risk of claims being made against the Company associated with providing temporary staffing services; (xiii) the Company's ability to manage significant amounts of information and periodically expand and upgrade its information processing capabilities; (xiv) the Company's ability to remain in compliance with federal and state wage and hour laws and regulations; (xv) uncertainties in predictions as to the future need for the Company's services; (xvi) uncertainties relating to the allocation of costs and expenses to each of the Company's operating segments; (xvii) the costs of conducting and the outcome of litigation involving the Company, and (xviii) other economic, competitive and governmental factors affecting the Company's operations, markets, products and services. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publicly release the results of any revision of these forward-looking statements to reflect these trends or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

Overview

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

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

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

Nonetheless, the Company continues to believe that IT managers must integrate and manage computing environments consisting of multiple computing platforms, operating systems, databases and networking protocols, and must implement packaged software applications to support existing business objectives. Companies also need to continually keep pace with new developments, which often render existing equipment and internal skills obsolete. Consequently, business drivers cause IT managers to support increasingly complex systems and applications of significant strategic value, while working under budgetary, personnel and expertise constraints. This has given rise to a demand for outsourcing. The Company believes that its current clients and prospective future clients are continuing to evaluate the potential for outsourcing business critical applications and entire business functions.

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

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

Overview (Continued)

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

Critical Accounting Policies

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

Revenue Recognition

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

Project Services - The Company recognizes revenues in accordance with the Securities and Exchange Commission, Staff Accounting Bulletin (SAB) Number 104, "Revenue Recognition." 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. 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.

Revenue Recognition (Continued)

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

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

Accounts Receivable

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

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair market value of identifiable assets. In accordance with SFAS 142, Goodwill and Other Intangible Assets, the Company performs its annual goodwill impairment testing, by reportable segment, in the fourth quarter, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducted its annual goodwill impairment test for 2005 as of November 30, 2005 and identified no impairments. Goodwill at April 1, 2006 and December 31, 2005 was $37,660,000.

Long-Lived Assets

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

Accounting for Stock Options

The Company has used stock options to attract, retain, and reward employees for long-term service. Generally accepted accounting principles allow alternative methods of accounting for these awards. The Company has chosen to account for its stock plans (including stock option plans) under APB Opinion 25, "Accounting for Stock Issued to Employees." Since option exercise prices reflect the market value per share of the Company's stock upon grant, no compensation expense related to stock options is reflected in the Company's Consolidated Statement of Income.

SFAS 123R replaces SFAS 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. The impact of SFAS 123R, if it had been in effect, on the net earnings and related per share amounts of our fiscal years ended in December 31, 2005, January 1, 2005 and December 27, 2003 were disclosed in Note 1 Summary of Significant Accounting Policies - Stock-Based Compensation of our Financial Statements included in our Form 10-K for the fiscal year ended December 31, 2005.

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

Accounting for Income Taxes

In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance, and estimates of future earnings. As of April 1, 2006, the Company had total net deferred tax assets of $4.0 million. This included $3.2 million for a reserve for litigation charges. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, additional valuation allowances may be required.

Forward-looking Information

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

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

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of
Financial Condition and Results of Operations - (Continued)

Thirteen Weeks Ended April 1, 2006 Compared to Thirteen Weeks Ended April 2, 2005

A summary of operating results for the fiscal quarters ended April 1, 2006 and April 2, 2005 is as follows (in thousands, except for earnings per share data):

	April 1, 2006		April
	Amount	% of Revenue	Amount
Revenues	$47,054	100.0	$44,082
Cost of services	35,023	74.4	33,973
Gross profit	12,031	25.6	10,109
Selling, general and administrative	10,086	21.4	8,406
Depreciation and amortization	353	.8	260
	10,439	22.2	8,666
Operating income	1,592	3.4	1,443
Other expense	78	.2	128
Income before income taxes	1,514	3.2	1,315
Income taxes	703	1.5	482
Net income	$811	1.7	$833
Earnings per share			
Basic:	$.07		$.07
Diluted:	$.07		$.07

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

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. A 53-week year occurs periodically. The year to date reporting periods ended April 1, 2006 and April 2, 2005 consisted of thirteen weeks each.

Revenues. Revenues increased 6.7%, or $3.0 million, for the thirteen weeks ended April 1, 2006 as compared to the same period in the prior year (the "comparable prior year period"). The revenue increased $51,000 in the Information Technology ("IT") segment, decreased $378,000 in the Engineering segment and increased $3.3 million in the Commercial segment. Management attributes the overall increase to an improvement of the general economy and successful marketing and sales efforts. Management reasonably expects revenues for the remainder of fiscal 2006 to remain consistent on a prorated basis with the revenues for the thirteen weeks ended April 1, 2006.

Thirteen Weeks Ended April 1, 2006 Compared to Thirteen Weeks Ended April 2, 2005 - (Continued)

Cost of Services. Cost of services increased 3.1%, or $1.1 million, for the thirteen weeks ended April 1, 2006 as compared to the comparable prior year period. This increase was primarily due to the increase in revenues. Cost of services as a percentage of revenues decreased to 74.4% for the thirteen weeks ended April 1, 2006 from 77.1% for the comparable prior year period. This decrease was primarily attributable to increased gross margins in the engineering segment and the commercial segment. Management reasonably expects the ratio of cost of sales to revenues for the remainder of fiscal 2006 to remain consistent.

Selling, General and Administrative. Selling, general and administrative ("SGA") expenses increased 20.0%, or $1.7 million, for the thirteen weeks ended April 1, 2006 as compared to the comparable prior year period. This increase was primarily attributable to stock based compensation expense of $293,000 for the thirteen weeks ended April 1, 2006, which resulted from the implementation of SFAS 123R on January 1, 2006 and increased sales and marketing costs on higher revenues. SGA expenses as a percentage of revenues were 21.4% for the thirteen weeks ended April 1, 2006 as compared to 19.0% for the comparable prior year period. Management reasonably expects SGA expenses for the remainder of fiscal 2006 to remain consistent with the SGA expenses for the thirteen weeks ended April 1, 2006.

Depreciation and Amortization. Depreciation and amortization ("DA") increased 35.6%, or $93,000, for the thirteen weeks ended April 1, 2006 as compared to the comparable prior year period. This increase was primarily attributable to amortization of intangibles of $72,000 in 2006.

Other Expense. Other expense consists of interest expense, net of interest income and gains and losses on foreign currency transactions. For the thirteen weeks ended April 1, 2006, actual interest expense of $168,000 was offset by

$103,400 of interest income, which was principally earned from short-term money market deposits. Interest expense, net, decreased $58,000 for the thirteen weeks ended April 1, 2006 as compared to the comparable prior year period. This decrease was primarily due to higher interest income earned on money market deposits and restricted cash deposits which was partially offset by increased borrowing requirements as well as an increase in weighted average interest rates on borrowed funds. Losses on foreign currency transactions increased $9,100 because of the weakening of the U.S. Dollar in relation to the Canadian Dollar in the thirteen weeks ended April 1, 2006 as compared to the comparable prior year period.

Income Tax. Income tax expense increased 45.7%, or $220,000, for the thirteen weeks ended April 1, 2006 as compared to the comparable prior year period. This increase was attributable to a higher level of income before taxes for the thirteen weeks ended April 1, 2006 compared to the comparable prior year period. The effective tax rate was 46.4% for the thirteen weeks ended April 1, 2006 as compared to 36.7% for the comparable prior year period. The increase in effective tax rate was attributable to an increased amount of non-deductible amortization and non-deductible stock compensation expense.

Thirteen Weeks Ended April 1, 2006 Compared to Thirteen Weeks Ended April 2, 2005 - (Continued)

Segment Discussion (See Footnote 12)

Information Technology

IT revenues of $24.7 million for the thirteen weeks ended April 1, 2006 increased $51,000, or .20%, compared to the thirteen weeks ended April 2, 2005. The EBITDA for the IT segment was $1.4 million, or 72.1% of the overall EBITDA for the thirteen weeks ended April 1, 2006 as compared to $1.5 million, or 88.4% of the overall EBITDA for the thirteen weeks ended April 2, 2005.

Engineering

Engineering revenues of $11.4 million for the thirteen weeks ended April 1, 2006 decreased $378,000, or 3.2%, compared to the thirteen weeks ended April 2, 2005. The decrease in revenue was attributable to the softening of demand for the Company's engineering services. The EBITDA for the Engineering segment was a loss of $21,000, or 1.1% of the overall EBITDA for the thirteen weeks ended April 1, 2006 as compared to a loss of $76,000, or 4.5% of the overall EBITDA for thethirteen weeks ended April 2, 2005.

Commercial

Commercial revenues of $11.0 million for the thirteen weeks ended April 1, 2006 increased $3.3 million, or 43.0% compared to the thirteen weeks ended April 2, 2005. The increase in revenues for the Commercial segment was attributable to improvement in economic activity within this segment. The EBITDA for the Commercial segment was $564,000, or 30.0% of the overall EBITDA for the thirteen weeks ended April 1, 2006 as compared to $273,000, or 16.0% of the overall EBITDA for the thirteen weeks ended April 2, 2005.

Liquidity and Capital Resources

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

	Thirteen Weeks Ended	
	April 1, 2006	April 2, 2005
	(In Thousands)	
Operating Activities	($1,809)	($1,873)
Investing Activities	($778)	($263)
Financing Activities	$3,297	$1,507

Operating Activities

Operating activities used $1.8 million of cash for the thirteen weeks ended April 1, 2006 as compared to using $1.9 million of cash for the comparable 2005 period. The cash used in operating activities was primarily attributable to an increase in accounts receivable, an increase in restricted cash, a decrease in accrued compensation, and a decrease in income taxes payable, which was partially offset by a decrease in prepaid expenses and other current assets, a increase in accounts payable and accrued expenses and a increase in payroll and withheld taxes. Based on current operating activities and the drivers of those activities, management reasonably expects that cash will be provided from operating activities for the remainder of fiscal 2006. The Company continues to institute enhanced managerial controls and standardization over its receivables collection and disbursement processes.

Investing Activities

Investing activities used $778,000 for the thirteen weeks ended April 1, 2006 as compared to using $263,000 for the comparable 2005 period. The increase in the use of cash for investing activities for 2006 as compared to the comparable 2005 period was primarily attributable to an increase in expenditures for property and equipment.

Financing Activities

Financing activities principally consisted of borrowing $3.2 million of debt in

2006 as compared to borrowing $1.5 million of debt in 2005 period.

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

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

Liquidity and Capital Resources (Continued)

The Revolving Credit Facility expires in August 2006. Management of the Company has commenced negotiations for renewal or replacement of the Revolving Credit Facility. Management has renewed this Revolving Credit Facility in the past and anticipates that it will be able to do so again. The weighted average interest rates under the Revolving Credit Facility for the thirteen weeks ended April 1, 2006 and April 2, 2005 were 7.6% and 5.6%, respectively. The amounts outstanding under the Revolving Credit Facility at April 1, 2006 and December 31, 2005 were $7.1 million and $3.9 million, respectively. At April 1, 2006, the Company had availability for additional borrowing under the Revolving Credit Facility of $17.8 million.

The Company anticipates that its primary uses of capital in future periods will be for working capital purposes. Funding for any long - and short-term capital requirements as well as future acquisitions will be derived from one or more of the Revolving Credit Facility, funds generated through operations or future financing transactions. The Company is involved in litigation as described in Footnote 13 (Contingencies) to the financial statements. The outcome of litigation is subject to inherent uncertainties and management's view of these matters may change in the future. Were an unfavorable final outcome to occur, there exists the possibility of a material adverse impact on our financial position, liquidity, and the results of operations for the period in which the effect becomes reasonably estimable.

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

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

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

At April 1, 2006, the Company had a deferred tax asset totaling $4.0 million, primarily representing the tax effect of a litigation reserve. The Company expects to utilize the deferred tax asset during the twelve months ending March 31, 2007 by offsetting the related tax benefits of such assets against tax liabilities incurred from forecasted taxable income.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of its line of credit. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of April 1, 2006, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Presently the impact of a 10% (approximately 76 basis points) increase in interest rates on its variable debt (using average debt balances during the thirteen weeks ended April 1, 2006 and average interest rates) would have a relatively nominal impact on the Company's results of operations. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 4. 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.

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.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See discussion of Legal Proceedings in Note 13 to the consolidated financial statements included in item 1 of this report.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 6. EXHIBITS

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

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

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RCM TECHNOLOGIES, INC.

SIGNATURES

Pursuant to the requirements 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: May 4, 2006 By: /s/ Stanton Remer

Stanton Remer
Executive Vice President, Chief Financial Officer,
Treasurer, Secretary and Director
(Principal Financial Officer and
Duly Authorized Officer of the Registrant)

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Exhibit 31.1

RCM TECHNOLOGIES, INC.

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATION

I, Leon Kopyt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RCM Technologies, Inc.;

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

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

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

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

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

c) Disclosed in this 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 functions):

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: May 4, 2006 /s/ Leon Kopyt
Leon Kopyt
Chief Executive Officer

Exhibit 31.2

RCM TECHNOLOGIES, INC.

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATION

I, Stanton Remer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RCM Technologies, Inc.;

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

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

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

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

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

c) Disclosed in this 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 functions):

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: May 4, 2006

/s/ Stanton Remer
Stanton Remer
Chief Financial Officer

Exhibit 32.1

RCM TECHNOLOGIES, INC.

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Leon Kopyt, President and Chief Executive Officer of RCM Technologies, Inc., a Nevada corporation (the "Company"), hereby certify that, to my knowledge:

(1) The Company's periodic report on Form 10-Q for the period ended April 1, 2006 (the "Form 10-Q") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

/s/ Leon Kopyt
Leon Kopyt
Chief Executive Officer

Date: May 4, 2006

Exhibit 32.2

RCM TECHNOLOGIES, INC.

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Stanton Remer, Chief Financial Officer of RCM Technologies, Inc., a Nevada corporation (the "Company"), hereby certify that, to my knowledge:

(1) The Company's periodic report on Form 10-Q for the period ended April 1, 2006 (the "Form 10-Q") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

/s/ Stanton Remer
Stanton Remer
Chief Financial Officer

Date: May 4, 2006