

# RCM TECHNOLOGIES INC

## FORM 10-K (Annual Report)

Filed 1/15/1997 For Period Ending 10/31/1996

Address	2500 MCCLELLAN AVE STE 350 PENNSAUKEN, New Jersey 08109
Telephone	609-486-1777
CIK	0000700841
Industry	Business Services
Sector	Services
Fiscal Year	12/31

# 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 [FEE REQUIRED]

For the fiscal year ended October 31, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT

OF 1934

For the transition period from ..... to .....

*Commission file number 1-10245*

## RCM TECHNOLOGIES, INC.

Exact name of registrant as specified in its charter

Nevada 95-1480559

State of incorporation IRS Employer Identification No.

2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613

address of principal executive offices

Registrant's telephone number, including area code: (609) 486-1777

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

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

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

Common Stock, par value \$.05

Class C Warrants

(Title of Class)

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

YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant on January 7, 1997 was approximately \$25,616,637 based upon the closing price of the Common Stock on such date on the NASDAQ SmallCap Market of \$9.00. 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 five cents per share) outstanding as of January 7, 1997: 4,815,676.

### Documents Incorporated by Reference

Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended October 31, 1996, filed as Exhibit 13 hereto ("1996 Annual Report"), are incorporated by reference herein into Items 5,6,7 and 8 in Part II.

Portions of the Proxy Statement for the Registrant's 1997 Annual Meeting of Stockholders ("1997 Proxy Statement") are incorporated by

reference into Items 10,11,12 and 13 in Part III. If the 1997 Proxy Statement is not filed by February 28, 1997, an amendment to this 1996 Annual Report setting forth this information will be duly filed with the Securities and Exchange Commission.

## PART I

### Cautionary Statement for Purposes of the "Safe Harbor" of the Private Securities Litigation Reform Act of 1995

When used in this Annual Report on Form 10-K and in other public statements by the Company and Company officers, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and similar expressions are intended to identify forward-looking statements regarding events and financial trends which may affect the Company's future operating results and financial position. Such statements are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially. Such factors include, among others: (i) the sensitivity of the Company's business to unemployment and general economic conditions associated with the placement of temporary staffing; (ii) the Company's ability to continue to attract, train and retain personnel who possess skills in the areas necessary to meet the staffing requirements of its clients; (iii) the Company's ability to identify appropriate acquisition candidates, complete acquisitions on satisfactory terms, or successfully integrate acquired businesses, which acquisitions may involve special risks, including risks associated with unanticipated problems, liabilities and contingencies, diversion of management attention and possible adverse effects on earnings resulting from increased goodwill amortization, increased interests costs and the issuance of additional securities; (iv) the potential adverse effect a decrease in the trading price of the Company's Common Stock would have upon the Company's ability to continue acquisitions of businesses through the issuance of its securities and the dilutive effect of such issuances on the Company, and upon the likelihood of conversion of outstanding options, warrants and other convertible securities; (v) the Company's ability to obtain financing on satisfactory terms and the degree to which the company is leveraged, including the extent to which currently outstanding options, warrants and other convertible securities are exercised; (vi) the reliance of the Company upon the continued service of its executive officers; (vii) the Company's ability to remain competitive in national, regional and local markets in an industry which is highly competitive with limited barriers to entry, including remaining competitive in light of pricing issues which could adversely affect earnings and the operations of the Company; (viii) the Company's ability to retain several of its key clients which account for a significant portion of the Company's revenue, which a loss or a material reduction in the revenue generated from such clients could have a material adverse effect on the Company's business; (ix) the Company's ability to maintain at a minimum its unemployment insurance premiums and workers compensation which it provides for its temporary employees; (x) the risk of claims associated providing temporary staffing services, including discrimination and harassment, violation of wage and hourly requirements, misuse of client proprietary information, misappropriation of funds, other criminal activity or tort and other similar claims; (xi) the Company's ability to store, retrieve, process and manage significant amounts of information, and periodically expand and upgrade its information processing capabilities; (xii) the Company's ability to remain in compliance with numerous federal and state wage and hour laws and regulations; and (xiii) other economic, competitive and governmental factors affecting the Company's operations, market, products and services. Additional factors are described in the Company's other public reports and registration statements filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publicly release the results of any revision of these forward-looking statements to reflect these ends or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

### Item 1. Business

#### General

The Company, through its wholly-owned operating subsidiaries, is a nationwide provider of temporary and contract personnel to businesses, professional and service organizations, manufacturers and public utilities. Through its four primary operating groups, the Company principally focuses its staffing services in the following sectors: Professional Engineering and Technical, Information Technology, Specialty Health Care and General Staff Support Sectors. The Company provides its services to national, regional and local clients through 29 branch offices in 11 states (as of October 31, 1996).

## **Item 1. Business - (Continued)**

To respond to fragmentation of the industry and in order to better serve the needs of larger national and regional accounts, since 1994 one of the Company's principal business strategies was to achieve growth through expansion and acquisition. Towards that end, since 1994 the Company has successfully completed the acquisition of five (5) companies (3 of which were acquired during 1996) in the staffing services industry, each with long standing operating histories and well established management infrastructures. In addition, the Company continues to identify and engage in discussions with possible acquisition candidates.

The acquisitions which occurred in 1996, which are described below (See "Business Strategy"), have been accounted for as purchases and, accordingly, the results of operations of the acquired companies have been included in the consolidated results of operations of the Company from the date of acquisition.

### **Business Strategy**

The Company's business strategy relies upon implementation of the following four guidelines:

#### **o Growth Through Expansion and Acquisition**

The Company believes that the temporary staffing industry is highly fragmented and experiencing a trend towards consolidation primarily due to the increasing demand by large companies for centralized staffing services. To respond to these developments, the Company has adopted a long-term business strategy to increase its profitability through expansion of its existing operations and acquisitions of businesses that are strategically located or positioned to diversify the Company's customer base and geographical accessibility. The Company continues to carefully identify acquisition candidates that meet specified criteria that management believes will meet certain financial performance goals when integrated into the Company's proven operating model. The Company has recently completed the following acquisitions:

On March 11, 1996, the Company acquired all of the outstanding shares of The Consortium, a specialty provider of information technology and health care personnel servicing private sector and government clients in the greater metropolitan New York region. During its last fiscal year prior to the acquisition, The Consortium generated revenues of \$26 million. The consideration paid to the former shareholders of The Consortium consisted of 1.3 million restricted shares of its common stock, valued at \$5,000,000, (based upon the average closing price of the Company's common stock for the 20 trading days immediately preceding the closing date) in exchange for all of the outstanding capital stock of The Consortium. The cost in excess of net assets acquired of \$4,940,700 is included in the Company's Consolidated Balance Sheet as "Intangible Assets" and is being amortized over a 40 year period. The Company has agreed to file a shelf registration statement with the Securities and Exchange Commission by February 15, 1997, permitting the sale of \$600,000 in value of securities during the period April 1997 through March 1998. Thereafter, the remainder of these shares are subject to significant restrictions on resale through March 11, 1999.

On May 1, 1996, the Company acquired The Consortium of Maryland, Inc. ("Consort MD"), a specialty provider of information technology personnel services to major U.S. Corporations in the greater metropolitan Washington, D.C. region. Consort MD was not related or affiliated with The Consortium. During its last fiscal year, Consort MD generated revenues of approximately \$6 million. The acquisition was completed through a merger transaction (the "Merger") pursuant to which Consort MD was merged with and into a newly created subsidiary of the Company, which then concurrently changed its name to "The Consortium of Maryland, Inc." The Merger consideration paid to the former shareholder of Consort MD at the closing consisted of \$621,500 cash and 34,327 restricted shares of the Company's common stock valued at \$377,597 (based upon the average closing bid price of the Company's common stock for the 20 trading days immediately preceding the closing date). Additional merger consideration will be paid to the former shareholder of Consort MD consisting of additional shares of stock having a value equal to the tangible net worth of Consort MD as of the Merger date, which approximates \$250,000. The Company has agreed to file a registration statement with the Securities and Exchange Commission by May 1, 1998 permitting these sale of the restricted shares.

## Item 1. Business - (Continued)

On September 13, 1996, the Company acquired all the assets and assumed the liabilities of Performance Staffing, Inc. ("PSI"). PSI is a specialty provider of general support staffing services. The consideration paid to the former shareholders of PSI consisted of 2,500 shares of restricted shares of the Company's common stock valued at \$21,000. There is contingent consideration of \$10,000 which is payable upon the collection of not less than 93% of all of the outstanding accounts receivables billed by PSI prior to acquisition by the Company. During its last fiscal year prior to the acquisition, PSI generated revenues of \$2.5 million.

On January 7, 1997, the Company purchased Programming Alternatives of Minnesota, Inc. ("PAMI"), a privately-held, specialty provider of information technology consultants, particularly those with high demand client-server skills. The purchase price was \$4,500,000 plus \$1,625,000 of contingent consideration in the form of a three year promissory note payable upon the attainment of certain earnings targets at the end of each twelve month period following the closing, for a period of three years. Any additional consideration paid will be recorded as additional purchase price. Based upon current monthly revenue figures provided by management of PAMI, the revenues for the year ended December 31, 1996 are estimated to be approximately \$10 million.

### o Concentration on Sectors Producing Higher Margins

The Company's strategy is to focus on the development of higher margin sectors of the business, a departure from the historic origins of the staffing industry in low margin clerical personnel. The Company intends to implement this strategy in several ways. First, the Company has expanded its range of services, in part through acquisitions, to include higher margin specialty services such as information technology, health care services and professional engineering services. The Company intends to continue to develop its capability to provide qualified employees to the information technology sector, one of the fastest growing segments of the temporary staffing industry. Second, the Company has continued its efforts to market temporary staffing services to higher margin accounts. The Company had de-emphasized marketing to accounts where competitive pricing makes margins unacceptable or to accounts where workers' compensation costs adversely affect profitability.

### o Emphasis upon Service and Value

The Company focuses on providing service and value to its customers. The Company's staff employees seek to establish and maintain long-term relationships with customers by developing knowledge of customers' businesses, responding promptly to customer orders and monitoring job performance and customer satisfaction. The Company has implemented this strategy by targeting customer accounts where service and quality are perceived to be as important as pricing of services, which allows the Company to be more selective and to provide higher quality staffing while maintaining desired profit margins.

### o Provide Entrepreneurial Offices with Strong Central Support

The Company's offices are supported by strong central functions at corporate headquarters that include marketing, recruiting and retention programs, workers' compensation and other insurance services, training, accounts payable, purchasing, credit, collection, system and its software that provides information on customer requirements, available applicants, temporary staffing employees on assignment and other information which facilitates efficient response to customer job orders.

The Company has established budgets and quality performance standards which are utilized at all offices. A substantial portion of region, area, district and office manager compensation is incentive-based and focused on meeting budgets and quality standards. Managers are also given considerable discretion to respond to specific customer requirements.

## **Item 1. Business - (Continued)**

### **Operation-Service Groupings**

The Company's business is generally conducted through four operating groups. The Professional Engineering & Technical Group provides personnel to perform engineering, design, drafting or other functions either at the site of the client or, less frequently, at its own facilities. This group generated approximately 46%, 55% and 49% of the revenues for the fiscal years ended October 31, 1996, 1995 and 1994, respectively.

The Information Technology Group ("IT") is a provider of computer related, information technology consulting services. The IT Group generated approximately 19% of the Company's revenues for the fiscal year ended October 31, 1996. On an annualized basis the IT Group would have contributed approximately 30% of revenues for the fiscal year ended October 31, 1996.

The General Staff Support Group, which provides office, clerical and light industrial personnel, provided 29%, 45% and 51% of the revenues for the Company's fiscal years ended October 31, 1996, 1995, and 1994, respectively.

The Specialty Health Group, which is a full service provider of skilled health care professionals, provided 6% of the revenues for the fiscal year ended October 31, 1996. Prior to 1996, this was not a material segment of the Company's business.

The Company's revenues, exclusive of fees earned from the permanent placement of personnel, are based upon the number of hours worked by personnel assigned to a client for either a designated or an indefinite term of engagement. The rates per hour differ among the categories of personnel and are affected by the prevailing direct labor rates in the area of assignment. Billings by the Company are usually on a weekly basis, with invoices payable within thirty days of the date of the invoice.

Engagements of personnel vary in duration. The average length of engagement for a project is nine months, and assignments of individuals have ranged from four months to more than three years. Clients typically invite several companies to bid on requests for proposals and sometimes grant contracts to more than one company to provide personnel for the same project. Contracts with certain clients prohibit the Company and the client from hiring the employees of the other during the contract period and for a specified time thereafter.

Management believes that there are a sufficient number of engineering, technical, professional and other personnel available to the Company to satisfy the requirements of its principal clients. The number and type of personnel available to the Company are affected by many factors including, general economic conditions, and have fluctuated widely from time to time.

### **Overview-The Temporary Staffing Industry**

The temporary staffing industry has grown rapidly in recent years as companies have utilized temporary employees to control personnel costs and to meet specialized or fluctuating personnel needs. Historically, the demand for temporary staffing services has been driven primarily by a need to temporarily replace full-time employees due to illness, vacation or termination. More recently, competitive pressures have forced businesses to focus on reducing costs, including converting fixed, permanent labor costs to variable or flexible costs.

The effective use of temporary staffing employees enables businesses to staff their organizations with a core level of regular employees and augment their work force as needed. By utilizing temporary staffing employees, businesses avoid the management and administrative costs incurred in hiring, training and terminating regular employees. A business pays only for the actual hours worked by temporary staffing employees and may terminate their services upon completion of the assignment without the adverse effects of layoffs. An ancillary benefit, particularly for smaller businesses, is that the usage of temporary staffing employees shifts employment costs and risks (e.g., workers' compensation and unemployment insurance) to the temporary staffing company, which can spread the costs and risks over a larger pool of employees.

## **Item 1. Business - (Continued)**

The range of temporary staffing services has expanded substantially since the early days of the industry. Technological advances, as well as changing attitudes towards workforce management, have resulted in a proliferation of new temporary staffing positions in such challenging areas as engineering, health care, information technology and other specialized industry segments. Furthermore, businesses have begun using temporary staffing employees to reduce administrative overhead by outsourcing operations that were formerly core business functions. In particular, information technology staffing services, one of the Company's primary operating groups, has become one of the fastest growing sectors of the temporary staffing industry. Over the last decade, the increased use of technology has led to dramatic rise in demand for technical project support, software development, and other computer-related services.

The Company believes that the temporary staffing industry is highly fragmented and is currently experiencing a trend toward consolidation primarily due to the increasing demand by large companies for centralized staffing services and the difficulties faced by many smaller staffing companies in today's staffing market. The growth of national and regional accounts resulting from the centralization of staffing decisions by national and larger regional companies has increased the importance of staffing companies being able to offer a wide range of services over a broad geographic area. In addition, many smaller staffing companies are experiencing increased difficulties due to factors such as significant working capital requirements, limited management resources, and an increasingly competitive environment.

### **Customers and Marketing**

The Company derives its revenues from a well diversified customer base, including a number of Fortune 500 companies, as well as small to medium sized retail, manufacturing and service businesses and governmental units. During fiscal 1996, the Company had one major customer that accounted for approximately 12.7% of revenues.

This is comparable to fiscal 1995, when the Company had one customer that accounted for approximately 12.3% of revenues. During fiscal 1996 and 1995, no other customers accounted for over 10% of the Company's revenues.

The Company has developed a sales and marketing strategy which focuses on both national and local accounts and is implemented through its branch locations. Local accounts are targeted by account managers at the branch offices permitting the Company to capitalize on the local expertise and established relationships of its branch office employees. Such accounts are solicited through personal sales presentations, telephone marketing, direct mail solicitation, referrals from clients, and advertising in a variety of local and national media. These advertisements appear in the Yellow Pages, newspapers, and trade publications. Local employees are encouraged to be active in civic organizations and industry trade groups to facilitate the development of new customer relationships. The Company's national sales and marketing effort is coordinated by management at the corporate level. This enables the Company to develop a consistent, focused strategy to pursue national account opportunities. This strategy allows the Company to capitalize on the desire of national clients to work with a limited number of preferred vendors for their staffing requirements.

### **Reliance on Key Personnel**

The Company is highly dependent on its senior management. The Company believes that its continued success will depend to a significant extent upon the efforts and abilities of its President and Chief Executive Officer, Leon Kopyt, and certain other executives, including executives of its acquired subsidiaries. Mr. Kopyt and certain of these officers have entered into employment agreements with the Company. See "Item 11. Executive Compensation - Executive Employment Agreements."

### **Competition**

The temporary services industry is fragmented and highly competitive, with limited barriers to entry. Within local markets, smaller firms actively compete with the Company for business, and in most of these markets, no single company has a dominant share of the market. The Company also competes with larger full-service and specialized competitors in national, regional and local markets, which have significantly greater marketing, financial and other resources than the Company. The Company believes that the primary competitive factors in obtaining and retaining

## **Item 1. Business - (Continued)**

clients are the ability to provide a wide range of staffing services, to service an expansive geographic area, an understanding of clients' specific job requirements, the ability to provide personnel with the appropriate skills in a timely manner, the monitoring of quality of job performance, and the pricing of services. The Company believes its strong emphasis on providing responsive and advanced quality service and improved value to its customers and its staffing employees are important competitive advantages.

### **Employees**

As of October 31, 1996, the Company employed on its permanent staff 165 persons, including licensed professional engineers who, from time to time, participate in engineering and design projects undertaken by the Company. During the twelve months ended October 31, 1996, approximately 550 engineering and technical personnel and 450 Information Technology personnel were employed by the Company to work on client projects for various periods. The Company has also employed approximately 7,000 temporary personnel during the year. None of the Company's employees, including its temporary employees, are represented by a collective bargaining agreement. The Company considers its relationship with its employees to be good.

## **Item 2. Properties**

The Company presently operates 29 offices in 11 states including 6 in California, 3 in Michigan, 4 in Connecticut, 2 in New York, 3 in Pennsylvania, 1 in South Carolina, 4 in New Jersey, 3 in Kentucky, 1 in Indiana, 1 in Maryland and 1 in Georgia. Each of the offices operates as an independent profit center with each manager having overall responsibility for sales and marketing, recruiting and retention of temporary staffing employees and customer relations. A branch office staff typically consists of the manager and up to four regular staff personnel who market to the Company's customers, process applicants, match customer needs with available temporary staffing employees and monitor staffing employee performance. Where possible, the offices are grouped around a hub office in a key metropolitan center supervised by an area or district manager

The Company maintains its principal executive offices in Pennsauken, New Jersey. The Company anticipates that it will not experience difficulties in renewing any of its current leases upon their expiration or obtaining different space on comparable terms if such leases cannot be renewed.

## **Item 3. Legal Proceedings**

From time to time, disagreements with individual employees and disagreements as to the interpretation, effect or nature of individual agreements arise in the ordinary course of business and may result in legal proceedings being commenced against the Company. The Company is not currently involved in any litigation or proceedings which are material, either individually or in the aggregate, and, to the Company's knowledge, no other legal proceedings of a material nature involving the Company are currently contemplated by any individuals, entities or governmental authorities.

The principal risks that the Company insures against are workers' compensation, personal injury, property damage, professional malpractice, errors and omissions, and fidelity losses. The Company maintains insurance in such amounts and with such coverages and deductibles as management believes are reasonable and prudent.

## **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to the vote of security holders during the fourth quarter ended October 31, 1996.

## PART II

### **Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

Information concerning the market and price history of the Company's Common Stock is incorporated herein by reference to the 1996 Annual Report or in an Amendment to this Report to be filed with the Securities and Exchange Commission.

### **Item 6. Selected Financial Data**

Selected financial data for the Company is incorporated herein by reference to the 1996 Annual Report or in an Amendment to this Report to be filed with the Securities and Exchange Commission.

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

A discussion of the Company's financial condition and results of operations is incorporated herein by reference to the Company's 1996 Annual Report or in an Amendment to this Report to be filed with the Securities and Exchange Commission.

### **Item 8. Financial Statements and Supplemental Data**

Financial Statements of the Company for the fiscal year ended October 31, 1996, and specific supplementary financial information are incorporated herein by reference to the 1996 Annual Report or in an Amendment to this Report to be filed with the Securities and Exchange Commission.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and**

Financial Disclosure

None.

## **PART III**

### **Item 10. Directors and Executive Officers of the Registrant**

Information with regard to this item is incorporated by reference to the definitive 1997 Proxy Statement under the caption "ELECTION OF DIRECTORS" and "OTHER INFORMATION - Executive Officers of the Registrant," or in an Amendment to this Report to be filed with the Securities and Exchange Commission.

### **Item 11. Executive Compensation**

Information with regard to this item is incorporated herein by reference to the definitive 1997 Proxy Statement under the caption "ADDITIONAL INFORMATION - Management Compensation," or in an Amendment to this Report to be filed with the Securities and Exchange Commission.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

Information with regard to this item is incorporated herein by reference to the definitive 1997 Proxy Statement under the caption "PRINCIPAL STOCKHOLDERS," or in an Amendment to this Report to be filed with the Securities and Exchange Commission.

### **Item 13. Certain Relationships and Related Transactions**

Information with regard to this item is incorporated herein by reference to the definitive 1997 Proxy Statement under the caption "ADDITIONAL INFORMATION Certain Transactions," or in an Amendment to this Report to be filed with the Securities and Exchange Commission.

## PART IV

### Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. and 2. Financial Statement Schedules -- included in the 1997 Annual Report filed as exhibit 13 hereto and incorporated herein by reference in Item 8.

(b) Reports on Form 8-K

None

(c) Exhibits

- (3)(a) Articles of Incorporation, as amended, incorporated by reference to Exhibit 3(a) of the Registrant's Form 10-K dated October 31, 1994, filed with the Commission on January 4, 1995 (Commission File No. 1- 10245).
- (3)(b) Bylaws, as amended on February 22, 1996.
- (4)(a) Warrant Agreement dated September 1, 1989, with respect to Class C Warrants between the Registrant and American Stock Transfer and Trust Company; incorporated by reference to Exhibit 4 (b) of the Registrant's Form S-1 Registration Statement dated July 25, 1989, as amended August 16, 1989 and May 14, 1990 (Commission File No. 33-30109).
- (4)(b) Rights Agreement dated as of March 14, 1996, between RCM Technologies, Inc. and American Stock Transfer & Trust Company, as Rights Agent; incorporated by reference to Exhibit 4 of the Registrant's Current Report on Form 8-K dated March 19, 1996.

**Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K -**

(Continued)

\* (10)(a) Amended and Restated Loan and Security Agreement dated August 30, 1995 as amended on December 19, 1996 between, the Registrant, Intertec Design, Inc., Cataract, Inc., The Consortium and The Consortium of Maryland, Inc. and Mellon Bank, N.A.

(10)(c) RCM Technologies, Inc. 1986 Incentive Stock Option Plan; incorporated by reference to Exhibit 10(d) of the Registrant's

Annual Report on Form 10-K dated October 31, 1986, filed with the Commission on February 13, 1987 (Commission File No. 1-10245).

(10)(d) RCM Technologies, Inc. 1992 Incentive Stock Option Plan; incorporated by reference to Exhibit A of the Registrant's Proxy Statement dated April 23, 1992, filed with the Commission on March 9, 1992 (Commission File No. 1-10245).

(10)(e) RCM Technologies, Inc. 1994 Nonemployee Director Stock Option Plan; incorporated by reference to Exhibit A of the Registrant's Proxy Statement dated May 19, 1994, filed with the Commission on June 22, 1994 (Commission File No. 33-80590).

\* (10)(f) Amended and restated Termination Benefits Agreement dated November 30, 1996 between the Registrant and Leon Kopyt.

\* (10)(g) Amended and restated Employment Agreement dated November 30, 1996 between the Registrant, Intertec Design, Inc. and Leon Kopyt.

\* (10)(l) RCM Technologies, Inc. 1996 Executive Stock Option Plan dated August 15, 1996.

\* (10)(m) Stock Option Agreement dated November 30, 1996 between the Registrant and Leon Kopyt.

(10)(n) Merger Agreement among RCM Technologies, Inc., CI Acquisition Corp. and Cataract, Inc. dated July 31, 1995; incorporated by reference to Exhibit(c)(1) of the Registrant's Current Report on Form 8-K dated August 30, 1995 ("Cataract 8-K").

(10)(o) Registration Rights Agreement dated August 30, 1995; incorporated by reference to Exhibit (c)(2) of the Cataract 8-K.

(10)(p) Voting Trust Agreement dated August 30, 1995; incorporated by reference to Exhibit (c)(3) of the Cataract 8-K.

(10)(q) Stock Pledge Agreement dated August 30, 1995; incorporated by reference to Exhibit (c)(5) of the Cataract 8-K.

(10)(r) Stock Purchase Agreement among RCM Technologies, Inc., The Consortium and The Shareholders of The Consortium dated as of March 1, 1996; incorporated by reference to Exhibit (c)(1) of the Registrant's Current Report on Form 8-K dated March 19, 1996 ("Consortium 8-K").

(10)(s) Registration Rights Agreement dated March 11, 1996; incorporated by reference to Exhibit (c)(2) of the Consortium 8-K.

(10)(t) Escrow Agreement dated March 11, 1996; incorporated by reference to Exhibit (c)(3) of the Consortium 8-K.

(10)(u) Standstill and Shareholders Agreement dated March 11, 1996; incorporated by reference to Exhibit (c)(5) of the Consortium 8-K.

(10)(v) Blaire Employment Agreement dated March 11, 1996; incorporated by reference to Exhibit (c)(6) of the Consortium 8-K.

(10)(w) Meyers Employment Agreement dated March 11, 1996; incorporated by reference to Exhibit (c)(7) of the Consortium 8-K.

(10)(x) Subscription Agreement dated January 12, 1996; incorporated by reference to Exhibit (a)(10) of the Registrant's Quarterly Report on form 10-Q for the quarterly period ended January 31, 1996 ("January 10-Q")

(10)(y) Registration Rights Agreement dated February 5, 1996; incorporated by reference to Exhibit (a)(10.1) of the January 10-Q.

(10)(z) Merger Agreement among RCM Technologies, Inc., sort Acquisition Corp., the Consortium of Maryland, Inc. and Peter Kaminsky dated April 23, 1996; incorporated by reference to Exhibit (2) of the

- (10)(aa) Registration Rights Agreement dated May 2, 1996; incorporated by reference to Exhibit (10.1) of the April 10-Q.
- (10)(ab) Escrow Agreement dated May 2, 1996; incorporated by reference to Exhibit (10.2) of the April 10-Q.
- (10)(ac) Standstill and Shareholders Agreement dated May 2, 1996; incorporated by reference to Exhibit (10.3) of the April 10-Q.
- (10)(ad) Kaminsky Employment Agreement dated May 2, 1996; incorporated by reference to Exhibit (10.4) of the April 10-Q.

(11)Computation of Earnings Per Share.

(13)Annual Report to Stockholders for the fiscal year ended October 31, 1996.

(21)Subsidiaries of the Registrant.

(23a) Consent of Independent Certified Public Accountants

(27)Financial Data Schedule.

## 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.** (Registrant)

<i>Date: January 14, 1997</i>	<i>By: /s/ Leon Kopyt Leon Kopyt Chairman, President, Chief Executive Officer and Director</i>
<i>Date: January 14, 1997</i>	<i>By: /s/ Stanton Remer Stanton Remer Chief Financial Officer, Treasurer, Secretary and Director</i>

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.

<i>Date: January 14, 1997</i>	<i>By: /s/ Leon Kopyt Leon Kopyt Chairman, President, Chief Executive Officer and Director</i>
<i>Date: January 14, 1997</i>	<i>By: /s/ Barry S. Meyers Barry S. Meyers Executive Vice President, Chief Operating Officer and Director</i>
<i>Date: January 14, 1997</i>	<i>By: /s/ Martin Blaire Martin Blaire Executive Vice President and Director</i>
<i>Date: January 14, 1997</i>	<i>By: /s/ Stanton Remer Stanton Remer Chief Financial Officer, Treasurer, Secretary and Director</i>
<i>Date: January 14, 1997</i>	<i>By: /s/ Norman S. Berson Norman S. Berson Director</i>
<i>Date: January 14, 1997</i>	<i>By: /s/ Robert B. Kerr Robert B. Kerr Director</i>
<i>Date: January 14, 1997</i>	<i>By: /s/ Woodrow B. Moats, Jr. Woodrow B. Moats, Jr. Director</i>

## EXHIBIT INDEX

- (10)(a) Amended and Restated Loan and Security Agreement dated August 30, 1995 as amended on December 19, 1996 between, the Registrant, Intertec Design, Inc., Cataract, Inc., The Consortium and The Consortium of Maryland, Inc. and Mellon Bank, N.A.
- (10)(f) Amended and restated Termination Benefits Agreement dated November 30, 1996 between the Registrant and Leon Kopyt.
- (10)(g) Amended and restated Employment Agreement dated November 30, 1996 between the Registrant, Intertec Design, Inc. and Leon Kopyt.
- (10)(l) RCM Technologies, Inc. 1996 Executive Stock Option Plan dated August 15, 1996.
- (10)(m) Stock Option Agreement dated November 30, 1996 between the Registrant and Leon Kopyt.
- (11) Computation of Earnings Per Share.
- (13)
- Annual Report to Stockholders for the fiscal year ended October 31, 1996.
- (21) Subsidiaries
- (23)(a) Consent of Independent Certified Public Accountants.
- (27) Financial Data Schedule

**FOURTH AMENDMENT AND MODIFICATION TO AMENDED AND  
RESTATED LOAN AGREEMENT**

THIS FOURTH AMENDMENT AND MODIFICATION TO AMENDED AND RESTATED LOAN AGREEMENT ("Amendment") is made effective as the 19th day of December, 1996, by and among INTERTEC DESIGN, INC. ("Intertec"), CATARACT, INC., formerly known as CI Acquisition Corp. ("CI"), THE CONSORTIUM ("Consortium"), THE CONSORTIUM OF MARYLAND, INC., a Pennsylvania corporation, formerly known as Sort Acquisition Corp. ("Consortium-MD") and MELLON BANK, N.A. ("Bank"). Intertec, CI, Consortium and Consortium-MD are sometimes hereinafter collectively or individually referred to as "Borrowers" or "Borrower", respectively.

**BACKGROUND**

A. Intertec, CI, Consortium, Consortium-MD and Bank have previously entered into a certain Amended and Restated Loan and Security Agreement dated August 31, 1995, as amended by amendments dated March 13, 1996 and May 29, 1996 (the "Loan Agreement") pursuant to which Bank agreed, subject to the terms and conditions stated therein, to extend to Intertec, CI, Consortium and Consortium-MD a line of credit up to the maximum principal amount of Ten Million Dollars (\$10,000,000.00).

B. Intertec, CI, Consortium and Consortium-MD have requested that Bank further amend the Loan Agreement, which Bank is willing to do on the terms set forth in this Amendment.

NOW, THEREFORE, intending to be legally bound hereby, the parties hereto agree as follows:

1. LINE OF CREDIT. Section 1.1 of the Loan Agreement is amended to read, in its entirety, as follows:

"1.1 Line of Credit. (a) Bank will establish for Borrowers for and during the period from the date hereof and until June 30, 1999 (the "Contract Period"), subject to the terms and conditions hereof, a revolving demand line of credit (the "Line") pursuant to which Bank will from time to time make loans or other extensions of credit to Borrowers in an aggregate amount not exceeding at any time the lesser of: (i) an amount up to eighty- five percent (85%) of the amount of Borrowers' Eligible Receivables, or (ii) Twenty Million Dollars (\$20,000,000.00). Bank, at its sole discretion, may require that certain reserves be established against certain Eligible Receivables from time to time.

Within the limitations set forth above, Borrowers may borrow, repay and reborrow under the Line. The Line shall be subject to all terms and conditions set forth in all of the Loan Documents (as hereafter defined) which terms and conditions are incorporated herein. Borrowers' obligation to repay the loans and extensions of credit under the Line shall be evidenced by Borrowers' amended and restated promissory note (the "Note") in the face amount of Twenty Million Dollars (\$20,000,000.00), which shall be in the form attached hereto as Exhibit "A", with the blanks appropriately filled in. The Line shall be subject to review and renewal, at the sole discretion of Bank.

The obligation of Borrowers to repay advances under the Prior Amended and Restated Loan Agreement previously evidenced by a certain promissory note from

(i) Intertec payable to the order of Bank dated June 30, 1993 in the original face amount of Two Million Five Hundred Thousand Dollars (\$2,500,000.00), (ii) Borrowers payable to the order of Bank dated August 31, 1995 in the original face amount of Six Million Dollars (\$6,000,000.00), and (iii) Borrowers payable to the order of Bank dated May 29, 1996 in the original face amount of Ten Million Dollars (\$10,000,000.00) (collectively, the "Prior Notes") remains outstanding as of the date hereof and such advances shall continue to be secured by the Collateral and the Loan Documents. The Note (1) supersedes the Prior Notes; (2) re-evidences the Indebtedness previously evidenced by the Prior Notes; (3) is given in substitution of, and not in payment of, the Prior Notes; and (4) is in no way intended to constitute a novation of the Prior Notes. It will be noted on the Prior Notes that the Prior Notes have been superseded by the Note.

(b) In addition to the sums available to Borrowers under the formula set forth in Section 1.1(a) above and subject to the terms and conditions set forth below, for the period through and including December 19, 1997 only, provided that no Event of Default or event which with the giving of notice or the passage of time or both would constitute an Event of Default shall have occurred, Borrowers may borrow on a non-revolving basis an aggregate amount not to exceed Four Hundred Fifty Thousand Dollars (\$450,000.00) (the "Permitted Out-of-Formula Facility"). The outstanding principal balance under the Line, including the aggregate principal balance of all advances under the Permitted

Out-of-Formula Facility, shall at no time exceed Twenty Million Dollars (\$20,000,000.00).

Advances under the Permitted Out-of-Formula Facility will be made only during the Initial Period. All advances under the Permitted Out-of-Formula Facility shall be repaid in full in six (6) equal and consecutive monthly installments, commencing on the first day following the expiration of the Initial Period and continuing on the same day of each of the next five (5) consecutive months.

As used herein, the term "Initial Period" shall mean the period commencing on the date of the first advance under the Permitted Out-of-Formula Facility and ending on the thirtieth (30th) day thereafter."

2. INTEREST RATE. Section 2.1 of the Loan Agreement is amended to read, in its entirety, as follows:

"2.1 (a) Interest Rate Options on the Line. Provided that no Event of Default shall have occurred, interest on the unpaid principal balance of the Line will accrue from the date of advance until final payment thereof, at a rate or rates selected by Borrowers from one of the two (2) interest rate options set forth below, subject to the restrictions and in accordance with the procedures set forth in this Agreement:

(i) Prime Rate (such rate to change automatically with any change in the Prime Rate); or (ii) LIBOR Rate.

(b) Request for Prime Rate. If the Borrowers desire that the Prime Rate shall apply to all or part of the principal balance under the Line, Borrowers shall give Bank a Prime Rate Notification. Upon delivery by Borrowers to Bank of a Prime Rate Notification, the principal balance under the Line identified in such Prime Rate Notification shall accrue interest at the Prime Rate as follows:

(i) with respect to the principal amount of any new advance under the Line, from the date of such advance until the effective date of another interest rate chosen for such amount in accordance with the terms of this Agreement; and/or

(ii) with respect to the principal amount of any portion of the Line

outstanding and accruing interest at the LIBOR Rate at the time of the Prime Rate Notification related to such principal amount, from the expiration of the then current Rate Period related to such principal amount until the effective date of another interest rate option chosen for such amount in accordance with the terms of this Agreement.

(c) Request for LIBOR Rate. If the Borrowers desire that all or part of the principal balance under the Line accrue interest at the LIBOR Rate, Borrowers shall give Bank a LIBOR Rate Notification. Upon delivery by Borrowers to Bank of a LIBOR Rate Notification, that portion of the principal balance outstanding under the Line identified in such LIBOR Rate Notification shall accrue interest at the LIBOR Rate as follows: (i) with respect to the principal amount of any new advance under the Line, from the date of such advance until the end of the Rate Period specified in such LIBOR Rate Notification; and/or (ii) with respect to the principal amount of any portion of the Line outstanding and accruing interest at another LIBOR Rate at the time of the LIBOR Rate Notification related to such principal amount, from the expiration of the then current Rate Period related to such principal amount until the end of the Rate Period specified in such LIBOR Rate Notification; and/or (iii) with respect to all or any portion of the principal amount of the Line outstanding and earning interest at the Prime Rate at the time of such LIBOR Rate Notification, from the date set forth in such LIBOR Rate Notification until the end of the Rate Period specified in such LIBOR Rate Notification.

(d) Certain Provisions Concerning Line Interest Rates. Borrowers understand and agree that: (i) subject to the provisions of this Agreement, the interest rates set forth in Section 2.1(a) above may apply simultaneously to different portions of the outstanding principal of the Line, (ii) the LIBOR Rate may apply simultaneously to various portions of the outstanding principal of the Line for various Rate Periods, (iii) the LIBOR Rate applicable to any portion of the outstanding principal of the Line may be different from the LIBOR Rate applicable to any other portion of the outstanding principal of the Line, (iv) Bank shall have the right to terminate any Rate Period and the interest rate applicable thereto, prior to the maturity of such Rate Period, if Bank determines in good faith (which determination shall be conclusive) that continuance of such interest rate has been made

unlawful by any law, statute, rule or regulation to which Bank may be subject, in which event the principal amount to which such terminated Rate Period relates shall thereafter earn interest at the Prime Rate, (v) advances under the Line accruing interest at the LIBOR Rate must be in increments of at least One Hundred Thousand Dollars (\$100,000.00), and (vi) no more than four (4) advances under the Line accruing interest at the LIBOR Rate may be outstanding at any one time.

(e) Prime Rate Fall Back For the Line. After expiration of any Rate Period, any principal portion of the Line corresponding to such Rate Period which has not been converted or renewed in accordance with the terms of this Agreement shall accrue interest automatically at the Prime Rate from the date of expiration of such Rate Period until paid in full, unless and until the Borrower requests a conversion to the LIBOR Rate in accordance with the terms of this Agreement.

(f) Interest on Permitted Out-of-Formula Facility. Interest on the unpaid principal balance of all advances under the Permitted Out-of-Formula Facility will accrue from the date of advance until final payment thereof, at a per annum rate equal to the Prime Rate of Bank in effect from time to time (such rate to change automatically with any change in the Prime Rate)."

3. PAYMENTS AND FEES. Section 3 of the Loan Agreement is amended as follows:

(a) By amending Sections 3.4, 3.5 and 3.6 to read as follows: "3.4 Usage Fee. So long as the Line is outstanding and has not been terminated, and the Bank Indebtedness has not been satisfied in full, Borrowers shall unconditionally pay to Bank a fee equal to one quarter of one percent (.25%) per annum of the daily unused portion of the Line (which shall be calculated as the difference between Twenty Million Dollars (\$20,000,000.00) or such greater amount if the maximum committed amount of the Line is ever increased), minus the outstanding principal balance of advances under the Line at the close of business on the date such calculation is made, which fee shall be computed on a monthly basis in arrears and shall be due and payable on the first day of

each month commencing on the first day of the first full month after the date hereof."

"3.5 Collateral Management Fee. So long as the Line has not been terminated pursuant to the terms hereof, and the Bank Indebtedness has not been satisfied in full, Borrowers shall unconditionally pay to Bank a nonrefundable annual Collateral Management Fee of Fifteen Thousand Dollars (\$15,000.00). If any Bank Indebtedness continues outstanding after the expiration of the Contract Period, such fee shall be as Bank may require but in no event will such fee be less than Fifteen Thousand Dollars (\$15,000.00) per annum. All such fees shall be paid annually in advance on July 1st of each year." "3.6 Termination of Line and Termination Fee. Borrowers may terminate the Line prior to the expiration of the Contract Period, only upon sixty (60) days written notice to Bank. In the event that (a) the Line is terminated by Borrowers for any reason, including, without limitation, repayment or refinancing of the Line with another lender, or (b) Borrowers' default under the Line and the Line is terminated, Borrowers shall pay the Bank a termination fee calculated as follows:

(i) Two percent (2%) of the maximum amount available under the Line if such termination occurs at any time prior to June 30, 1997; (ii) One and one-half percent (1.5%) of the maximum amount available under the Line if such termination occurs on or after June 30, 1997 but prior to June 30, 1998; and

(iii) One percent (1%) of the maximum amount available under the Line if such termination occurs on or after June 30, 1998."

(b) By adding the following new sections: "3.12 Minimum Borrowing Fee. In any month during the term of the Contract Period for which the average outstanding principal balance under the Line is less than Two Million Dollars (\$2,000,000.00), Borrowers shall pay to Bank a fee as calculated by Bank equal to the difference between the interest which (a)

actually accrued during such month on the outstanding principal balance of the Line, and (b) would have accrued during such month assuming that the average outstanding principal balance under the Line for such month was Two Million Dollars (\$2,000,000.00). Such fee shall be due and payable on the first day of each month as calculated for the last preceding month and Bank is hereby authorized to deduct such fee on such date from any account of any Borrower maintained with Bank."

"3.13 Indemnity for LIBOR Portion. Borrowers shall indemnify Bank against any loss or expense (including loss of margin) which Bank has sustained or incurred as a consequence of (a) payment, prepayment or conversion of any LIBOR Rate Portion on a day other than the last day of the corresponding Rate Period (whether or not any such payment is pursuant to demand by Bank and whether or not any such payment, prepayment or conversion is consented to by Bank, unless Bank shall have expressly waived such indemnity in writing); or (b) attempt by Borrowers to revoke in whole or in part any irrevocable LIBOR Rate Notification pursuant to this Agreement.

If Bank sustains any such loss, it shall from time to time notify Borrowers of the amount determined in good faith by Bank (which determination shall be conclusive) to be necessary to indemnify Bank for such loss or expense. Such amount shall be due and payable by Borrower on demand and Bank is hereby authorized to deduct any such amount from any account of any Borrower maintained with Bank."

4. ADDITIONAL FACILITY FEE. In consideration of Bank entering into this Amendment, Borrowers shall pay to Bank a fee in the amount of Sixty Thousand Dollars (\$60,000.00). Such fee shall be payable (a) Thirty Thousand Dollars (\$30,000.00) contemporaneously with the execution hereof, and (b) Thirty Thousand Dollars (\$30,000.00) on May \_\_\_\_, 1997. Bank is authorized to deduct such payments when due from any account of any Borrower maintained with Bank.

5. FINANCIAL COVENANTS. Sections 7.1, 7.2, 7.3, 7.4, 7.5 7.6, 7.7 and 7.8 are amended to read, in their entirety, as follows:

"7.1 Net Income. Borrowers will have Net Income determined on a combined basis in accordance with GAAP of not less than (a) Two Hundred Fifty Thousand Dollars (\$250,000.00) for the twelve (12) month period ending October 31, 1995;

(b) Five Hundred

Thousand Dollars (\$500,000.00) for the twelve (12) month period ending October 31, 1996; (c) One Million Four Hundred Thousand Dollars (\$1,400,000.00) for the twelve (12) month period ending October 31, 1997, unless prior to the end of such fiscal year, Borrowers have not acquired PAMI (as defined below), in which event the minimum Net Income for the twelve (12) month period ending October 31, 1997 shall be One Million Two Hundred Thousand Dollars (\$1,200,000.00); and (d) One Million Five Hundred Thousand Dollars (\$1,500,000.00) for each twelve (12) month period ending thereafter." "7.2 Effective Net Worth. Borrowers shall maintain Effective Net Worth determined on a combined basis of not less than (a) Three Million Three Hundred Ninety-Six Thousand Dollars (\$3,396,000.00) as of November 1, 1994 and at all times thereafter until October 30, 1995; (b) Three Million Six Hundred Fifty Thousand Dollars (\$3,650,000.00) as of October 31, 1995 and at all times thereafter until October 30, 1996; (c) Four Million One Hundred Fifty Thousand Dollars (\$4,150,000.00) as of October 31, 1996 and at all times thereafter until October 30, 1997; (d) Three Million Four Hundred Forty-Nine Thousand Dollars (\$3,449,000.00) as of October 31, 1997 and at all times thereafter until October 30, 1998; and (e) Five Million Four Hundred Forty-Nine Thousand Dollars (\$5,449,000.00) as of October 31, 1998 and at all times thereafter.

Notwithstanding the foregoing, upon consummation of the acquisition by Borrowers of Programming Alternatives of Minnesota, Inc. ("PAMI"), the Effective Net Worth covenant shall be as follows for the applicable periods:

(a) Two Million Three Hundred Twenty-Nine Thousand Dollars (\$2,329,000.00) as of January 31, 1997 and at all times thereafter until April 29, 1997; (b) Two Million Eight Hundred Fifty-Three Thousand Dollars (\$2,853,000.00) as of April 30, 1997 and at all times thereafter until July 30, 1997; and (c) Three Million Three Hundred Thirty-Four Thousand Dollars (\$3,334,000.00) as of July 31, 1997 and at all times thereafter until October 30, 1997. After October 30, 1997, the Effective Net Worth covenant shall be as provided for above." "7.3 Working Capital. Borrowers will maintain Working Capital determined on a combined basis in accordance with GAAP

of not less than (a) Three Million Fifty Thousand Dollars (\$3,050,000.00) as of October 31, 1994 and at all times thereafter until October 30, 1995; (b) Three Million Two Hundred Thousand Dollars (\$3,200,000.00) as of October 31, 1995 and at all times thereafter until October 30, 1996; (c) Three Million Seven Hundred Thousand Dollars (\$3,700,000.00) as of October 31, 1996 and at all times thereafter until October 30, 1997; (d) Three Million Dollars (\$3,000,000.00) as of October 31, 1997 and at all times thereafter until October 30, 1998; and (d) Three Million Three Hundred Thousand Dollars (\$3,300,000.00) as of October 31, 1998 and at all times thereafter."

Notwithstanding the foregoing, upon consummation of the acquisition by Borrowers of PAMI, the Working Capital covenant shall be as follows for the applicable periods:

(a) Two Million One Hundred Thousand Dollars (\$2,100,000.00) as of January 31, 1997 and at all times thereafter until April 29, 1997; (b) Two Million Five Hundred Thousand Dollars (\$2,500,000.00) as of April 30, 1997 and at all times thereafter until July 30, 1997; and (c) Two Million Seven Hundred Thousand Dollars (\$2,700,000.00) as of July 31, 1997 and at all times thereafter until October 30, 1997. After October 30, 1997, the Working Capital covenant shall be as provided for above. "7.4 Senior Indebtedness to Effective Net Worth Ratio. Borrowers will maintain a ratio of Senior Indebtedness to Effective Net Worth determined on a combined basis in accordance with GAAP of not more than (a) 1.7 to 1.0 as of the date hereof and at all times thereafter until October 30, 1997; (b) 3.5 to 1.0 as of October 31, 1997 and at all times thereafter until October 30, 1998; and

(c) 3.0 to 1.0 as of October 31, 1998 and at all times thereafter. Notwithstanding the foregoing, upon consummation of the acquisition by Borrowers of PAMI, the Senior Indebtedness to Effective Net Worth ratio shall be as follows for the applicable periods:

(a) 4.70 to 1.0 as of January 31, 1997 and at all times thereafter until April 29, 1997; (b) 4.25 to 1.0 as of April 30, 1997 and at all times thereafter until July 30, 1997; and (c) 3.5 to 1.0 as of July 31, 1997 and at all times thereafter until October 30, 1997.

After October 30, 1997, the Senior Indebtedness to Effective Net Worth ratio shall be as provided for above."

"7.5 Capital Expenditures. Borrowers will not cause, suffer or permit Borrowers' aggregate annual Capital Expenditures to exceed (a) One Hundred Thousand Dollars (\$100,000.00) for any fiscal year through and including Borrowers' fiscal year ending October 31, 1996; and (b) One Hundred Fifty Thousand Dollars (\$150,000.00) for any fiscal year thereafter." "7.6 Current Ratio. Borrowers will maintain a ratio of Current Assets to Current Liabilities determined on a combined basis in accordance with GAAP of not less than (a) 1.35 to 1.0 as of the date hereof and at all times thereafter until October 30, 1996; (b) 1.6 to 1.0 as of October 31, 1996 and at all times thereafter until October 30, 1997; (c) 1.10 to 1.0 as of October 31, 1997 and at all times thereafter until October 30, 1998; and (d) 1.25 to 1.0 as of October 31, 1998 and at all times thereafter."

Notwithstanding the foregoing, upon consummation of the acquisition by Borrowers of PAMI, the Current Ratio covenant shall be as follows for the applicable periods:

(a) 1.10 to 1.0 as of January 31, 1997 and at all times thereafter until April 29, 1997; (b) 1.15 to 1.0 as of April 30, 1997 and at all times thereafter until July 30, 1997; and (c) 1.20 to 1.0 as of July 31, 1997 and at all times thereafter until October 30, 1997. After October 30, 1997, the Current Ratio covenant shall be as provided for above. "7.7 Consolidated Working Capital. Borrowers and the Guarantor will maintain Working Capital determined on a consolidated basis in accordance with GAAP of not less than (a) Three Million Fifty Thousand Dollars (\$3,050,000.00) as of October 31, 1994 and at all times thereafter until October 30, 1995; (b) Three Million Two Hundred Thousand Dollars (\$3,200,000.00) as of October 31, 1995 and at all times thereafter until October 30, 1996; (c) Three Million Seven Hundred Thousand Dollars (\$3,700,000.00) as of October 31, 1996 and at all times thereafter until October 30, 1997; (d) Three Million Dollars (\$3,000,000.00) as of October 31, 1997 and at all times thereafter until October 30, 1998; and (e) Three Million Three

Hundred Thousand Dollars (\$3,300,000.00) as of October 31, 1998 and at all times thereafter."

Notwithstanding the foregoing, upon consummation of the acquisition by Borrowers of PAMI, the Consolidated Working Capital covenant shall be as follows for the applicable periods:

(a) Two Million One Hundred Thousand Dollars (\$2,100,000.00) as of January 31, 1997 and at all times thereafter until April 29, 1997; (b) Two Million Five Hundred Thousand Dollars (\$2,500,000.00) as of April 30, 1997 and at all times thereafter until July 30, 1997; and (c) Two Million Seven Hundred Thousand Dollars (\$2,700,000.00) as of July 31, 1997 and at all times thereafter until October 30, 1997. After October 30, 1997, the Consolidated Working Capital covenant shall be as provided for above.

"7.8 Consolidated Tangible Net Worth. Borrowers and the Guarantor will maintain Tangible Net Worth determined on a consolidated basis in accordance with GAAP of not less than (a) Three Million Three Hundred Ninety-Six Thousand Dollars (\$3,396,000.00) as of November 1, 1994 and at all times thereafter until October 30, 1995; (b) Three Million Six Hundred Fifty Thousand Dollars (\$3,650,000.00) as of October 31, 1995 and at all times thereafter until October 30, 1996; (c) Four Million One Hundred Fifty Thousand Dollars (\$4,150,000.00) as of October 31, 1996 and at all times thereafter until October 30, 1997; (g) Three Million Four Hundred Forty-Nine Thousand Dollars (\$3,449,000.00) as of October 31, 1997 and at all times thereafter until October 30, 1998; and (h) Five Million Four Hundred Forty-Nine Thousand Dollars (\$5,449,000.00) as of October 31, 1998 and at all times thereafter.

Notwithstanding the foregoing, upon consummation of the acquisition by Borrowers of PAMI, the Consolidated Tangible Net Worth covenant shall be as follows for the applicable periods:

(a) Two Million Three Hundred Twenty-Nine Thousand Dollars (\$2,329,000.00) as of January 31, 1997 and at all times thereafter until April 29, 1997; (b) Two Million Eight Hundred Fifty-Three Thousand Dollars (\$2,853,000.00) as of April 30, 1997 and at all times thereafter until July 30, 1997; and (c) Three Million Three Hundred Thirty-Four Thousand Dollars (\$3,334,000.00) as of July

31, 1997 and at all times thereafter until October 30, 1997. After October 30, 1997, the Consolidated Tangible Net Worth covenant shall be as provided for above."

6. DEFINITIONS. Section 14 of the Loan Agreement is amended to add the following defined terms:

"Applicable Margin" shall mean initially two hundred twenty-five (225) basis points. Provided that no Event of Default or event which with the giving of notice or the passage of time or both would become an Event of Default shall have occurred, and further provided that Borrowers meet the financial covenant and minimum availability requirements as set forth below, the Applicable Margin shall reduce to (a) two hundred (200) basis points as of the date which is ten

(10) days after the receipt by Bank of Borrowers' annual audited financial statements for Borrowers' fiscal year ending October 31, 1997 and shall remain at such amount until the change provided for in (b) below, and (b) one hundred seventy-five (175) basis points as of the date which is ten (10) days after receipt by Bank of Borrowers' annual audited financial statements for Borrowers' fiscal year ending October 31, 1998 and shall remain at such amount thereafter. Borrowers' compliance with the financial covenants set forth below shall be determined based on Borrowers' annual audited financial statements delivered to Bank pursuant to Section 8.1 above. Senior Indebtedness Minimum Availability to Effective Net Cash Flow For Advances Worth Ratio Coverage Ratio Under the Line

Not greater than  
3.0 to 1.0 for  
the 12-month period  
through and includ-  
ing October 31,  
1997 and October  
31, 1998, respect-  
ively

Not less than  
2.0 to 1.0 for the  
12-month period  
through and includ-  
ing October 31,  
1997 and October  
31, 1998,  
respectively

\$1,000,000 for the  
30-day period through  
and including the date on  
which Bank receives Borrowers'  
annual financial statements for  
October 31, 1997 and October 31,  
1998, respectively

"Good Business Day" means any day when banks in Pennsylvania and London, England are open for business.

"Cash Flow Coverage Ratio" shall mean the ratio of (a) the sum of Borrowers' consolidated Net Income, plus depreciation and amortization, less Capital Expenditures and long-term debt repayments to (b) the sum of unfunded Capital Expenditures, plus long-term debt repayments.

"LIBOR Rate" for any day for any proposed or existing LIBOR Rate Portion of the Line corresponding to a Rate Period shall mean the rate per annum determined by Bank to be the rate per annum obtained by dividing (the resulting quotient to be rounded upward to the nearest 1/100 of 1%) (a) the rate of interest (which shall be the same for each day in such Rate Period) estimated in good faith by Bank in accordance with its usual procedures (which determination shall be conclusive) to be the average of the rates per annum for deposits in United States dollars offered to major money center banks in the London interbank market at approximately 11:00 a.m., London time, two Good Business Days prior to the first day of such Rate Period for delivery on the first day of such Rate Period in amounts comparable to such LIBOR Rate Portion (or, if there are no such comparable amounts actively traded, the smallest amounts actively traded) and having maturities comparable to such Rate Period by (b) a number equal to 1.00 minus the LIBOR Rate Reserve Percentage for such day, and then adding to such rate the Applicable Margin.

"LIBOR Rate Notification" means an irrevocable written notice requesting the LIBOR Rate which must be provided to Bank prior to 2:00 p.m. Philadelphia time on a Business Day which is at least two (2) Good Business Days prior to the date on which such rate is requested to take effect, specifying:

(a) The principal amount which is to accrue interest at such rate; (b) The date on which such rate is to take effect; and (c) Whether such principal amount is a new advance, a conversion from another interest rate, a renewal of another interest rate or a combination thereof. "LIBOR Rate Portion" shall mean at any time the part, including the whole, of the unpaid principal amount of the Line bearing interest at such time at the LIBOR Rate.

"LIBOR Rate Reserve Percentage" for any day shall mean the percentage (rounded upward to the nearest 1/100 of 1%), as determined in good faith by Bank (which determination shall be conclusive) as representing for such day the maximum effective reserve requirement (including without limitation supplemental, marginal and emergency requirements) for member banks of the Federal Reserve System with respect to eurocurrency funding (currently referred to as "Eurocurrency liabilities") of any maturity. Each LIBOR Rate shall be adjusted automatically as of the effective date of any change in the LIBOR Rate Reserve Percentage.

"Prime Rate Notification" means an irrevocable written notice requesting the Prime Rate which must be provided to Bank prior to 2:00 p.m. Philadelphia time on the Business Day on which such rate is requested to take effect, specifying:

(a) The principal amount which is to accrue interest at such rate; (b) The date on which such rate is to take effect; and (c) Whether such principal amount is a new advance, a conversion from another interest rate option or a combination thereof. "Prime Rate Portion" shall mean at any time the part, including the whole, of the unpaid principal amount of the Line bearing interest at such time at the Prime Rate. "Rate Period" shall mean for any portion of the Line for which the Borrowers elect the LIBOR Rate, the period of time for which such rate shall apply to such principal portions. The Rate Period for the LIBOR Rate shall be for periods of thirty (30), sixty (60) or ninety (90) days.

7. AMENDED AND RESTATED NOTE. Contemporaneously with its execution hereof, the Borrowers shall execute and deliver to Bank an Amended and Restated Note (the "Amended and Restated Note") in the form attached hereto as Exhibit "A", evidencing the Borrowers' obligation to repay the Line. Hereafter, all references in the Loan Agreement or any of the other Loan Documents to the "Note" shall be deemed to be references to the Amended and Restated Note. The indebtedness, if any, evidenced by any prior Notes remains outstanding as of the date hereof. The Borrowers and Guarantor acknowledge and agree that the Amended and Restated Note merely re-evidences the indebtedness evidenced by any prior Notes increasing the face amount thereof and is given in substitution and not in payment of such prior Notes.

8. SUBORDINATION AGREEMENTS. Borrowers and Guarantor have executed and delivered to Bank various Subordination Agreements in Bank's favor. Borrowers and Guarantor acknowledge and agree that the term "Senior Debt" as used in such Subordination Agreements shall include the Line as increased by this Amendment.

9. CONTRIBUTION AGREEMENT. Borrowers have executed a certain Third Amended and Restated Contribution Agreement. Borrowers acknowledge and agree that the term "Bank Indebtedness" as used in the Third Amended and Restated Contribution Agreement shall include the Line as increased by this Amendment.

10. FURTHER AGREEMENTS AND REPRESENTATIONS. Borrowers and Guarantor do hereby:

(a) ratify, confirm and acknowledge that, as amended hereby, the Loan Agreement, the Note and all other Loan Documents, as such term is defined in the Loan Agreement, are valid, binding and in full force and effect;

(b) covenant and agree to perform all obligations of Borrowers and Guarantor contained herein, in the Loan Agreement and in the other Loan Documents, as amended hereby;

(c) acknowledge and agree that as of the date hereof, Borrowers and Guarantor have no defense, set-off, counterclaim or challenge against the payment of any sums owing under the Bank Indebtedness or the enforcement of any of the terms of the Loan Agreement, or any of the other Loan Documents, as amended;

(d) represent and warrant that no Event of Default, as defined in the Loan Agreement, as amended, exists or will exist upon the delivery of notice, passage of time or both;

(e) acknowledge and agree that nothing contained herein and no actions taken pursuant to the terms hereof is intended to constitute a novation of the Loan Agreement or any of the other Loan Documents, and does not constitute a release, termination or waiver of any of the liens, security interests, rights or remedies granted to the Bank therein, which liens, security interests, rights and remedies are hereby ratified, confirmed, extended and continued as security for the Bank Indebtedness as amended hereby; and

(f) acknowledge and agree that Borrowers' and Guarantor's failure to comply with or perform any of its covenants, agreements or obligations contained in this Amendment shall constitute an Event of Default under the Loan Agreement and each of the Loan Documents as amended.

11. ADDITIONAL DOCUMENTS; FURTHER ASSURANCES. Borrowers and Guarantor further covenant and agree to execute and deliver to the Bank, or to cause to be executed and delivered to the Bank, at the sole cost and expense of Borrowers and Guarantor, from time to time, any and all other documents, agreements, statements, certificates and information as Bank shall reasonably request to evidence or effect the terms of the Loan Agreement, as amended, or any of the other Loan Documents, as amended, or to enforce or

protect Bank's interest in all collateral. All such documents, agreements, statements, certificates and information shall be in form and content acceptable to Bank in its sole discretion.

12. FEES, COSTS, EXPENSES AND EXPENDITURES. Borrowers and Guarantor agree to pay all of Bank's expenses in connection with the review, preparation, negotiation, documentation and closing of this Amendment and the consummation of the transactions contemplated hereunder, including, without limitation, fees, disbursements, expenses and disbursements of counsel retained by Bank and all fees related to filings, recording of documents and searches, whether or not the transactions contemplated hereunder are consummated.

13. AMENDED AND RESTATED NOTE. Contemporaneously with its execution hereof, the Borrowers shall execute and deliver to Bank an Amended and Restated Note (the "Amended and Restated Note") in the form attached hereto as Exhibit "A", evidencing the Borrowers' obligation to repay the Line. Hereafter, all references in the Loan Agreement or any of the other Loan Documents to the "Note" shall be deemed to be references to the Amended and Restated Note. The indebtedness, if any, evidenced by the prior Note remains outstanding as of the date hereof. The borrowers acknowledge and agree that the Amended and Restated Note merely re-evidences the indebtedness evidenced by the prior Note while adding Consortium as a co-maker and is given in substitution and not in payment of such prior Note.

14. INTERRELATEDNESS OF BORROWERS. The business operations of each Borrower are interrelated and complement one another, and such entities have a common business purpose. To permit their uninterrupted and continuous operations, such entities now require and will from time to time hereafter require funds and credit accommodations for general business purposes. The proceeds of advances under the Line and other credit facilities extended under the Loan Agreement will directly or indirectly benefit each Borrower, severally and jointly, regardless of which Borrower requests or receives part or all of the proceeds of such advances.

15. JOINT AND SEVERAL LIABILITY. The obligations of each Borrower under the Loan Agreement and the Loan Documents shall be joint and several.

16. CONFIRMATION OF COLLATERAL. Borrowers and Guarantor hereby confirm, acknowledge and agree that none of the collateral securing any obligations of Borrowers or Guarantor to Bank shall be impaired by anything contained in this Amendment, and such collateral shall continue to secure all of the obligations of Borrowers and Guarantor to Bank under the Loan Agreement and the Loan Documents.

17. NO WAIVER. Nothing herein shall constitute a waiver by Bank of Borrowers' or Guarantor's compliance with the terms of the Loan Agreement or the Loan Documents nor any of Bank's rights in connection therewith, nor shall anything contained herein constitute an agreement by Bank to enter into any further agreements with Borrowers or Guarantor.

18. INCONSISTENCIES. To the extent of any inconsistency between the terms and conditions of this Amendment and the terms and conditions of the Loan Agreement or the Loan Documents, the terms and conditions of this Amendment shall prevail. All terms and conditions

of the Loan Agreement and Loan Documents not inconsistent herewith shall remain in full force and effect and are hereby ratified and confirmed by Borrowers.

19. CONSTRUCTION. Any capitalized terms used in this Amendment not otherwise defined shall have the meaning as set forth in the Loan Agreement, as amended. All references to the Loan Agreement therein or in any of the other Loan Documents shall be deemed to be a reference to the Loan Agreement as amended hereby.

20. BINDING EFFECT. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns.

21. GOVERNING LAW. This Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

22. HEADINGS. The headings of the Articles, Sections, paragraphs and clauses of this Amendment are inserted for convenience only and shall not be deemed to constitute a part of this Amendment.

23. WAIVER OF RIGHT TO TRIAL BY JURY. BORROWERS, GUARANTOR AND BANK WAIVE ANY RIGHT TO TRIAL BY JURY ON ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION

(a) ARISING UNDER ANY OF THE LOAN DOCUMENTS OR (b) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF BORROWERS, GUARANTOR OR BANK WITH RESPECT TO ANY OF THE LOAN DOCUMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE. BORROWERS, GUARANTOR AND BANK AGREE AND CONSENT THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AMENDMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF BORROWERS, GUARANTOR AND BANK TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY. BORROWERS AND GUARANTOR ACKNOWLEDGE THAT THEY HAVE HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL REGARDING THIS SECTION, THAT THEY FULLY UNDERSTAND ITS TERMS, CONTENT AND EFFECT, AND THAT THEY VOLUNTARILY AND KNOWINGLY AGREE TO THE TERMS OF THIS SECTION.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed effective as of the day and year first above written.

**INTERTEC DESIGN, INC.**

By:  
Leon Kopyt, President

(CORPORATE SEAL)  
Attest:

Stanton Remer, Secretary

CATARACT, INC., formerly known as CI  
Acquisition Corp.

By:  
Leon Kopyt, President

(CORPORATE SEAL)  
Attest:

Stanton Remer, Secretary

**THE CONSORTIUM**

By:  
Leon Kopyt, President

(CORPORATE SEAL)  
Attest:

Stanton Remer, Secretary

**THE CONSORTIUM OF MARYLAND, INC.**

By:  
Leon Kopyt, President

(CORPORATE SEAL)  
Attest:

Stanton Remer, Secretary

**MELLON BANK, N.A.**

By:  
Name/Title:

The undersigned, intending to be legally bound, hereby join in the representations and warranties and consent to and agree to be bound by the terms, conditions and covenants applicable to the undersigned as set forth in the foregoing Amendment.

**RCM TECHNOLOGIES, INC.**

By:

Leon Kopyt, President

**[CORPORATE SEAL]**

Attest:

Stanton Remer, Secretary

**AMENDED AND RESTATED  
TERMINATION BENEFITS AGREEMENT**

AMENDED AND RESTATED TERMINATION BENEFITS AGREEMENT made this \_\_\_\_ day of \_\_\_\_\_, effective as of December 30, 1993 (the 'Effective Date'), by and between RCM TECHNOLOGIES, INC., a Nevada corporation (the "Company") and LEON KOPYT (the "Executive").

**RECITALS**

- A. The Executive has for several year served the Company as a key executive officer and has helped guide the Company through many problems.
- B. The Executive has been successful in converting a loss of \$1 million for the fiscal year ended 10/31/91 into a net profit of \$1 million for the fiscal year ended 10/31/93. He has negotiated a line of credit for the Company with Mellon Bank on favorable term and has arranged for acquisitions of companies to strengthen the company's competitive position.
- C. The Executive is expected to continue to make a major contribution to the profitability, growth and financial strength of the Company.
- D. The Company considers the continued services of the Executive to be in the best interest of the Company and its shareholders and desires to assure the continued service of the Executive on behalf of the Company on an objective and impartial basis and without distraction or conflict of interest in the event of an attempt to obtain control of the Company.
- E. The Executive is willing to remain in the employ of the Company upon the understanding that the Company will provide income security upon the terms and subject to the conditions contained herein if the Executive's employment is terminated voluntarily for good reason following a change in control of the Company or involuntarily by the Company without "Good and Sufficient Cause" (as hereafter defined). NOW, THEREFORE, in consideration of the mutual promises herein contained and intending to be legally bound hereby, the parties agree as follows:
  - 1. Simultaneously with a "Change in Control of the Company", as that term is defined herein (a "Change in Control"), the term of any Employment Agreement then in force between the Company and the Executive (the "Employment Agreement"), without any further action on the part of either party, shall be deemed to have been extended for a term of five (5) years, commencing with the date of the Change In Control, on the same terms and conditions as existed immediately prior to the Change in Control (the "Extended Term").
  - 2. During the Extended Term, the Executive may terminate his employment at any time for "good reason". As used herein, the term "good reason" shall mean:

- (i) A failure by the Company to comply with any material provision of the Employment Agreement, which failure has not been cured within ten (10) days after notice of noncompliance has been given by Executive to the Company;
- (ii) Without Executive's written consent, the assignment to Executive of any duties inconsistent with Executive's duties, responsibilities and status with the Company immediately prior to the change in control;
- (iii) Any change in (a) Executive's reporting responsibilities, title or office in effect immediately prior to the change in control of the Company, or
- (b) a change in geographic location of where Executive's position is based in excess of twenty (20) miles or required travel in excess of Executive's present business travel schedule;
- (iv) Any removal from or any failure to reelect Executive to any positions held by him immediately prior to the change in control except in connection with a termination of employment for just cause, disability, death or retirement;
- (v) Any reduction by the Company in Executive's annual salary in effect immediately prior to a change in control or as the same may be increased from time to time;
- (vi) Failure by the Company to continue in effect any bonus, benefit or compensation plan, life insurance plan, health and accident plan or disability plan in which Executive is participating at the time of a change in control of the Company or the taking of any action by the Company which would adversely effect the Company's participation in or materially reduce Executive's benefits under any such plan;
- (vii) Any purported termination of Executive's employment which is not effected pursuant to a notice of termination satisfying the requirements of paragraph 4 hereof; or
- (viii) Any change in corporate strategy, direction of the Company's business, management, operating personnel, composition of the Board of Directors, competitive posture, or standing in the industry, any one or more of which in the absolute discretion of Executive render Executive's continued employment by the Company inconsistent with Executive's employment goals and objectives.

3. For purposes of this Agreement, a "Change in Control" shall be determined in the reasonable discretion of Executive in the manner established at Paragraph 7 hereafter. A Change in Control 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, as in effect on the date hereof, promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); provided that, without limitation, such a Change in Control shall be deemed to have occurred if:

- (a) Any "Person" or "group of Persons" (as such terms are defined hereafter), except for any employee benefit plan of the Company or any subsidiary of the Company, or any

entity holding voting securities of the Company for or pursuant to the terms of any such plan (a "Benefit Plan" or the "Benefit Plans"), is or becomes the "beneficial owner" (as such term is defined hereafter), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities; (b) There occurs a contested proxy solicitation of the Company's shareholders that results in the contesting party obtaining the ability to vote securities representing 20% or more of the combined voting power of the Company's then outstanding securities;

(c) There occurs a sale, exchange, transfer or other disposition of substantially all of the assets of the Company to another entity, except to an entity controlled directly or indirectly by the Company, or a merger, consolidation or other reorganization of the Company in which the Company is not the surviving entity, or a plan of liquidation or dissolution of the Company other than pursuant to bankruptcy or insolvency laws is adopted;

(d) During any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election by the Company's shareholders, of each new director was approved by a vote of at least two-thirds of the directors (inclusive of Executive) then still in office who were directors at the beginning of the period; or

(e) If Executive no longer continues to serve as the Chairman of the Company's Board of Directors (unless at his own election) during any period in which Executive remains employed by the Company or within three (3) years thereafter if Executive's employment was terminated for other than 'good and sufficient cause', as such term is defined within Executive's Employment Agreement (hereinafter 'Good and Sufficient Cause'). Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred for purposes of this Agreement: (i) if a "Person" acquires or becomes the beneficial owner of securities representing 20% or more of the combined voting power of the Company's then outstanding securities pursuant to a private placement transaction or underwritten public offering of the Company's Common Stock where such issuance of securities by the Company is approved by a vote of at least two-thirds of the directors and by written consent of the Executive, outside of his capacity as a director; (ii) if a transaction identified in subparagraph 3(c) above occurs and is approved by a vote of at least two-thirds of the directors and by the written consent of the Executive outside of his capacity as a director; (iii) in the event of a sale, exchange, transfer or other disposition of substantially all of the assets of the Company to, or a merger, consolidation or other reorganization involving the Company and, the Executive, alone or with other officers of the Corporation, or any entity in which the Executive (alone or with other officers) has, directly or indirectly, at least a 25% equity or ownership interest; or (iv) in a transaction which includes the Executive as a principal and control person and is otherwise commonly referred to as a "management leveraged buy-out". For the purposes of subparagraph 3(a), a "Person" shall not be deemed the beneficial owner of securities representing 20% or more of the combined voting

power of the Company's then outstanding securities if that "Person" is an underwriter who has acquired shares for resale in connection with an underwritten public offering of such shares.

Subparagraph 3(a) above to the contrary notwithstanding, a Change in Control shall not be deemed to have occurred if a Person becomes the beneficial owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities solely as the result of an acquisition by the Company or any subsidiary of the Company of voting securities of the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such person to 20% or more of the combined voting power of the Company's then outstanding securities, provided, however, that if a Person becomes the beneficial owner of 20% or more of the combined voting power of the Company's then outstanding securities by reason of shares purchased by the Company or any subsidiary of the Company and shall, after such share purchases by the Company or a subsidiary of the Company, become the beneficial owner, directly or indirectly, of any additional voting securities of the Company, then a Change in Control shall be deemed to have occurred with respect to such Person under subparagraph 3(a) above. Notwithstanding the foregoing, in no event shall a Change in Control be deemed to occur under subparagraph 3(a) above with respect to the Benefit Plans.

For the purposes of this paragraph 3, the terms "Person," "group of Persons", "beneficial owner" and "beneficial ownership" shall have the meanings ascribed thereto under Sections 13(d) and 14(d) and Rule 13d promulgated under the Securities Exchange Act.

4. Any termination of Executive's employment by the Company or by Executive shall be communicated by written notice of termination to the other party. For purposes of this Agreement, a "notice of termination" shall mean a dated notice which shall (i) indicate the specific termination provision in the Employment Agreement relied upon; (ii) set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated; (iii) specify a date of termination, which shall be not less than thirty nor more than ninety (90) days after such notice of termination. In the case of termination by the Company of Executive's employment for "Good and Sufficient Cause" pursuant to paragraph 4 of the Employment Agreement, the notice of termination may specify a date of termination as of the date such notice of termination is given and (iv) notice of termination shall be given in the manner specified in Section 14 of the Employment Agreement.

5. If during the Extended Term following a Change in Control Executive terminates his Employment for good reason as described in subparagraphs (i) to

(viii) of paragraph 2 hereof, or if Executive is terminated by the Company for other than "Good and Sufficient Cause", then, in lieu of any further salary payments to Executive for periods subsequent to the date of termination:

(a) The Company shall pay as a liquidated amount to Executive within ninety

(90) days of such termination, a lump sum cash payment which is equal to the remainder of any further salary and ascertainable bonus payments that would have become due to Executive during

the remainder of the Extended Term; calculating the amount of such salary based upon the Executive's current gross salary (for federal income tax purposes) and ascertainable bonus based upon the bonus that was received by Executive during the Company's most recently completed fiscal year;

(b) Any stock options to acquire the Company's stock held by Executive which were not fully exercisable shall immediately become fully exercisable by Executive and the option exercise price for such options shall be deemed to be one cent (\$0.01) per share, notwithstanding any provision of any option agreement to the contrary;

(c) The Company shall continue to pay or make available to Executive for a period of two (2) years after the date of termination, all Company benefits including all health, disability and life insurance plans provided by or through the Company, including those provided in the Employment Agreement;

(d) If Executive is terminated by the Company for other than "Good and Sufficient Cause", the "Non-Disclosure/Non-Competition" restrictions contained within paragraph 8 of the Employment Agreement and the "Remedies" associated therewith contained within paragraph 9 of the Employment Agreement shall be null and void and unenforceable and inapplicable as to the Executive; and

(e) The Company, within ninety (90) days of Executive's date of termination, shall (i) pay to Executive an additional amount sufficient to satisfy all of Executive's current or prospective liability to any taxing authority for excise taxes, penalties or any other taxes assessed in excess of normal income taxes imposed on salaries, incurred by reason of the payments made to Executive under this Agreement and (ii) cause the Company's independent auditors to determine, within ninety (90) days, the amount to be paid to Executive pursuant to subparagraph 5(a) and this subparagraph 5(e) above, providing a copy to Executive of the auditors' detailed determination.

6. The Executive shall not be required to mitigate the amount of any payment provided for under this Agreement by asking for other employment and none of these payments may be reduced by any future salary that Executive may earn.

7. A Change in Control shall be determined within the reasonable discretion of the Executive who shall within 90 days of such determination provide written notice (the "Notice") to the Company identifying the Change in Control, and, if possible, providing reference to the Item or Items constituting the Change in Control identified in subparagraphs 3(a)-3(e) above. The Company shall have 15 days in which to respond in writing. This response shall indicate whether or not the Company adopts or disputes the conclusions set forth within the Notice, and if the Company disputes the Notice, the Company's response shall indicate with specificity the basis and grounds for such objection. In the absence of a timely response, the Company shall be deemed to have adopted the conclusions set forth within the Notice. The conclusions of the Executive set forth within the Notice shall be deemed conclusive evidence of a Change in

Control. The Company shall bear the burden of proof of establishing that a Change in Control has not occurred.

8. The Executive is aware that upon Notice of the occurrence of a Change in Control, the Board of Directors or a shareholder of the Company may then cause or attempt to cause the Company to refuse to comply with its obligations under this Agreement, or may cause or attempt to cause the Company to institute, or may institute litigation seeking to have this Agreement declared unenforceable, or may take or attempt to take other action to deny Executive the benefits intended under this Agreement. In these circumstances, the purpose of this Agreement could be frustrated. It is the intent of the Company that Executive not be required to incur the expenses associated with the enforcement of any rights under this Agreement by litigation or other legal action, nor be bound to negotiate any settlement of any rights hereunder, because the cost and expense of such legal action or settlement would substantially detract from the benefits intended to be extended to Executive hereunder.

Accordingly, if following a Notice relative to a Change in Control it should appear to Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes any action to declare this Agreement void or unenforceable, or institutes any litigation or other legal action designed to deny, diminish or to recover from Executive the benefits intended to be provided to Executive hereunder, and Executive has complied with all obligations under this Agreement, then the Company irrevocably authorizes Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as provided in this paragraph 8, to represent Executive in connection with the initiation or defense of any litigation or other legal action, whether such action is by or against the Company or any director, officer, shareholder, or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to Executive entering into an attorney-client relationship with such counsel, and in that connection the Company and Executive agree that a confidential relationship shall exist between Executive and such counsel. The reasonable fees and expenses of counsel selected from time to time by Executive as hereinabove provided shall be paid in advance or reimbursed to Executive, at the election of the Executive, by the Company on a regular, periodic basis upon presentation by Executive of a statement or statements or customary retainer letter prepared by such counsel in accordance with its customary practices, up to a maximum aggregate amount of \$500,000. Any legal expenses incurred by the Company by reason of any dispute between the parties as to enforceability of or the terms contained in this Agreement, notwithstanding the outcome of any such dispute, shall be the sole responsibility of the Company, and the Company shall not take any action to seek reimbursement from Executive for such expense.

9. This Agreement is the entire agreement between the parties concerning the subject matter hereof and supersedes all prior or contemporaneous negotiations or understandings relating hereto, including a Termination Benefits Agreement dated December 30, 1993, and a First Amendment to Termination Benefits Agreement dated March 1, 1996. This Agreement may be altered or amended only by a writing signed by the parties hereto.

10. This Agreement shall be construed in accordance with the laws of Pennsylvania and shall be binding upon and inure to the benefit of the parties hereto, their heirs, administrators, successors and assigns. IN WITNESS WHEREOF, the parties hereto have executed this amendment the day and year first above written.

**RCM TECHNOLOGIES, INC.**

BY: \_\_\_\_\_

ATTEST: \_\_\_\_\_

---

**LEON KOPYT**

APPROVED:

---

**WOODROW B. MOATS, JR.**  
**Chairman Compensation Committee**

## AMENDED AND RESTATED EMPLOYMENT AGREEMENT

AMENDED AND RESTATED EMPLOYMENT AGREEMENT entered into on November 30, 1996, by and between RCM TECHNOLOGIES, INC., a Nevada corporation, INTERTEC DESIGN, INC. a New York corporation and CATARACT, INC., a Pennsylvania corporation, (hereafter collectively "Employer") and LEON KOPYT (hereafter "Employee").  
In consideration of the mutual promises herein contained and intending to be legally bound hereby, the parties agree as follows:

### EMPLOYMENT; TERM, COMPENSATION:

1. Commencing March 1, 1996, Employer hereby employs Employee for a three (3) year term ending February 28, 1999. The prior sentence notwithstanding, commencing on February 28, 1997 and each February 28th thereafter the term of this Agreement shall automatically be extended for one (1) additional year beyond the then existing term, each such term conditioned only upon Employee's completion of the prior one year term without death, disability and without being terminated "for good and sufficient cause" as set forth in paragraph 4 hereof. Employee's compensation and benefits for each calendar year shall be as determined by the Compensation Committee of the Board of Directors of the Employer (or by such committee of the Board to which such a determination may have been delegated); provided, always that such compensation and benefits shall never be less than Employee's Initial Compensation and Benefits as set forth in this Agreement and on Exhibit 'A' hereto.

### DUTIES:

2. Employee shall devote his full time, attention and best efforts to his duties as President and Chief Executive Officer. Employee shall at all times discharge his duties in consultation with and under the supervision of the Board of Directors of the Employer.

### VACATIONS:

3. (a) Employee shall receive four (4) weeks of paid vacation in each calendar year. Vacation pay shall be cumulative and to the extent not taken shall be compensated; provided, however, that in no event and at no time shall Employee be entitled to cumulate in excess of eight (8) weeks of unused vacation pay from prior calendar years.

### HOLIDAYS:

(b) Employee shall be entitled to those holidays allowed for by Company policy.

## ILLNESS:

(c) If Employee is prevented from performing his duties by reason of illness or incapacity for an aggregate of ninety (90) days in any year of this Agreement, Employer shall not be obligated to pay Employee compensation for any period of absence in excess of the aggregate of ninety (90) days in any year. Sick pay shall be non-cumulative and, to the extent not used, shall not be compensated.

## DISABILITY:

(d) If Employee is prevented from performing his duties by reason of verifiable physical or mental illness or incapacity for the continuous period of ninety (90) days, then Employer, in addition to the remedy provided for in subparagraph (c) hereof, may on thirty (30) days prior notice, terminate Employee's employment. Employer shall include Employee in at least such disability insurance coverage as Employer presently provides Employee.

## TERMINATION:

4. (a) Notwithstanding any other provision hereof, the employment of the Employee shall terminate immediately upon the death of Employee or Employee's discharge by employer upon "good and sufficient cause" as defined below.

In the event of the Employee's death while employed by the Employer, Employer will pay Employee's named beneficiary, or if there be none then living, to his estate, Employee's base salary at the date of his death for a period of six (6) months after the date of death, payable weekly.

(b) "Good and sufficient cause" shall mean:

(i) A 'material breach' of this Agreement by Employee which is not cured within 15 days of written notice thereof. A 'material breach' shall be defined as: (a) the unwillingness or failure of Employee to discharge his duties hereunder within fifteen (15) days of written notice specifying such events; and

(b) the continued refusal to follow the directives of the Board which are consistent with Employee's duties and responsibilities as designated by the Board, within fifteen (15) days of written notice to that effect from the Employer unless the failure to follow such directives were either (x) based upon the advice of counsel or (y) based upon the Employee's judgment in good faith that such directives would not be in the best interests of the Employer or its stockholders.

(ii) Any action or series of actions undertaken by Employee in his capacity as an Employee of the Company that results in the commission by Employee of a felony for which he is convicted by a court of competent jurisdiction; or

(iii) The finding by a court of competent jurisdiction that Employee perpetrated a dishonest act or common law fraud against the Employer or any affiliate thereof.

(c) If Employee is terminated for "good and sufficient cause", then Employer shall provide Employee, upon termination a written explanation for such termination, identifying such "good and sufficient cause."

(d) If Employee is terminated without "good and sufficient cause", then in lieu of any further salary payments to Employee for periods subsequent to the date of termination:

(i) the Company shall pay as a liquidated amount to Employee within 30 days of such termination, a lump sum cash payment which is equal to the total of any further salary and bonus payments that would have become due to Employee had he remained employed by Employer for a period of three (3) years following the date of termination; calculating the amount of such salary based upon the Employee's current gross salary (for federal income tax purposes) and bonus based upon the bonus that was received by Employee during Employer's most recently completed fiscal year;

(ii) any stock options to acquire the Company's stock held by Employee which were not fully exercisable shall become immediately fully exercisable by Employee notwithstanding any provision of any option agreement to the contrary;

(iii) the Company shall continue to pay or make available to Employee for a period of two (2) year after the date of termination, all Employee benefits including all health, disability and life insurance plans provided by or through the Employer, including those otherwise provided in this Employment Agreement upon the date of termination; and

(iv) the "Non-Disclosure/Non-Competition" restrictions contained within paragraph 8 of this Employment Agreement and the "Remedies" associated therewith contained within paragraph 9 of this Agreement shall be null and void and unenforceable and inapplicable as to the Employee.

(e) the Employee shall not be required to mitigate that amount of any payment provided for under subparagraph 4(d) by asking for any other employment and none of these payments may be reduced by any future salary that Employee may earn from third parties.

**BUSINESS EXPENSES:**

5. During the period in which Employee is employed by Employer, Employer agrees to pay all reasonable expenses incurred by Employee in furtherance of the business of Employer including travel and entertainment expense. Employer agrees to reimburse Employee for any such expenses upon submission by him of a statement itemizing such expenses.

**AUTO EXPENSES:**

throughout the remainder of the term of this Agreement, Employer agrees to continue such payments, however, subject to reasonable increases at the request of Employee which shall not exceed 10% per annual period. Also during the term of this Agreement, Employer shall pay all other reasonable expenses incurred by Employee in the operation and maintenance of the automobile.

**MEDICAL INSURANCE:**

7. During the period in which Employee is employed by Employer, Employer shall reimburse Employee for the medical insurance premium and/or include Employee and his family in the medical insurance coverage provided for executive level employees of Employer.

**8. NON-DISCLOSURE/NON-COMPETITION:**

(a) Employee will not, during or at any time after the termination of this Agreement, without authorization of Employer, disclose to, or make use for himself or for any person, corporation, or other entity, any trade secret or other confidential information concerning the business, clients, methods, operations, financing or services of employer. Trade secrets and confidential information shall mean information disclosed to Employee or known by him as a consequence of his employment by Employer, whether or not pursuant to this Agreement, and not generally known to the industry. Without limiting the generality of the foregoing, trades secrets and confidential information shall include market analysis and market expansion plans of Employer and all technical information relating to products or systems developed by Employer and all planned product or system improvements or changes to the extent not generally known to the industry. It shall not be a breach of this Section 8 if Employee discloses information that is already generally known to the public, or if Employee is required to disclose such information by law or court order.

(b) Employee agrees that he will not, directly or indirectly, during the term of this Agreement and for a period of one (1) year thereafter. within the geographic areas in which Employer conducts its operations upon the termination of his employment, engage in the business of placement of technical or temporary personnel, whether as an employee, owner, partner, agent director, officer or shareholder and, without limiting the generality of the foregoing, do any of the following:

(i) Solicit, divert, accept business from or otherwise take away any client of Employer who is or was client during the term of the Agreement, including all clients directly or indirectly produced or generated by Employee;

(ii) Solicit, induce or contract with any of the Employer's employees to leave Employer or to work for Employee or any company with which Employee is connected; or

(iii) Solicit, divert or take away any of Employer's sources of business.

(c) Notwithstanding the provisions contained in this Section 8, Employee shall have the right to beneficially own no more than five percent (5%) of the stock of a public company which is a competitor of the Employer.

**REMEDIES:**

9. Employer agrees that a violation of any of the provisions of paragraph 8 hereof will cause irreparable damage to Employer the exact amount of which it will be possible to ascertain and, for that reason, Employee agrees that Employer shall be entitled to injunctive relief restraining any violation of paragraph 8 hereby by Employee and any person, firm or corporation associated with him, such right to be cumulative and in addition to all other remedies available to Employer by reason of such violation.

**LIFE INSURANCE:**

10. During the term of this Agreement. Employer shall take out and pay the premium on a policy of term life insurance in the amount not less than \$200,000.00 insuring the life of Employee and payable one-half to such beneficiary as he shall designate and one-half to Employer.

**APPROVAL:**

11. This Agreement shall be effective upon its approval by the Chairman of Employer's Compensation Committee and upon its execution by the parties hereto.

**ARBITRATION:**

12. Except for matters arising under paragraphs 8 and 9, hereof any controversy, claim or dispute arising out of or relating to this Agreement, shall be submitted to arbitration in the City of Philadelphia, Commonwealth of Pennsylvania, in accordance with the rules of the American Arbitration Association. The expenses of the arbitration shall be paid equally by Employer and Employee. Any judgment upon the award made and rendered by the arbitration may be entered in a Court of competent jurisdiction.

**CHOICE OF LAW:**

13. This Agreement shall be governed by the law of the Commonwealth of Pennsylvania without regard to conflict of law principles.

**NOTICES:**

14. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing, and if sent by certified mail, return receipt requested, as follows:

**IF TO EMPLOYEE:**

Leon Kopyt  
447 Waring Street  
Philadelphia, PA 19116

**IF TO EMPLOYER:**

RCM Technologies, Inc.  
P.O. Box 8525  
Cherry Hill, NJ 08002

**BINDING EFFECT:**

15. The terms of this Agreement shall be binding upon and inure to the benefit of the parties hereto, and their respective personal representatives, successors and assigns.

**INTEGRATION-AMENDMENT:**

16. This Agreement contains the entire agreement between the parties hereto, with respect to the transactions contemplated herein and supersedes all previous representations, negotiations, commitments and writings with respect thereto. No amendment or alteration of the terms of this Agreement shall be valid unless made in writing and signed by all of the parties hereto. This Agreement supersedes the Employment Agreements between the parties hereto dated April 15, 1994 and March 1, 1996.

(This Space Left Blank Intentionally)

IN WITNESS WHEREOF, the parties have executed this agreement as of the day and year first above written.

**RCM TECHNOLOGIES, INC.**

BY: \_\_\_\_\_

ATTEST: \_\_\_\_\_

**INTERTEC DESIGN, INC.**

BY: \_\_\_\_\_

ATTEST: \_\_\_\_\_

**CATARACT, INC.**

BY: \_\_\_\_\_

ATTEST: \_\_\_\_\_

---

**LEON KOPYT**

APPROVED:

---

**WOODROW B. MOATS, JR.,  
CHAIRMAN  
COMPENSATION COMMITTEE**

**EXHIBIT 'A'**  
**SCHEDULE OF INITIAL COMPENSATION**

Initial Salary: \$300,000.00 annually, payable in equal weekly installments Initial Bonus:

On amounts of up to \$750,000.00 of operating profits - 3%(\*)

On amounts over \$750,000.00 and up to \$1,500,000.00 of operating profit - 2%(\*)

On all amount over \$1,500,000.00 of operating profit - 1%(\*)

(\* ) Bonus shall be based on Employer's operating profits on a consolidated basis before state and federal income taxes for the fiscal year ending within each calendar year during the term of this Agreement. Any such bonus shall be payable within sixty (60) days following the close of Employer's fiscal year.

APPROVED:

\_\_\_\_\_

Woodrow B. Moats, Jr., Chairman Compensation Committee

**RCM TECHNOLOGIES, INC.**  
**1996 EXECUTIVE STOCK PLAN**  
Effective Date: August 15, 1996

**RCM TECHNOLOGIES, INC.  
1996 EXECUTIVE STOCK PLAN**

**ARTICLE I  
DEFINITIONS**

1.1 Affiliate means any corporation which, with the Company, would be included in a "controlled group of corporations" as such term is defined in Section 1563 of the Code.

1.2 Agreement means a written agreement (including any amendment or supplement thereto) between the Company and a Participant specifying the terms and conditions of an Option or Right granted or Award made to such Participant.

1.3 Award means an Award of restricted Common Stock pursuant to the provisions of Section 8.1 hereof.

1.4 Board means the Board of Directors of the Company.

1.5 Code means the Internal Revenue Code of 1986, and any amendments thereto.

1.6 Committee means the Compensation Committee appointed by the Board which shall consist solely of two or more "non-employee directors" as defined in Rule 16b- 3(b)(3)(i) of the Exchange Act.

1.7 Common Stock means the common stock of the Company.

1.8 Company means RCM Technologies, Inc.

1.9 Disabled means a Participant is permanently and totally disabled within the meaning of Section 22(e)(3) of the Code. "Disability" means the condition which renders the Participant Disabled.

Effective Date means August 15, 1996.

1.11 Exchange Act means the Securities Exchange Act of 1934, as amended.

1.12 Fair Market Value as of any day means the average of the highest price and lowest price per share at which the stock is sold on the National Association of Securities Dealers Automated Quotation System on such day or, in the absence of any reported sale on such day, the first preceding day on which there were such sales.

1.13 Option means a stock option that entitles the holder to purchase from the Company a stated number of shares of Common Stock at the price set forth in an Agreement.

1.14 Participant means an individual, who satisfies the requirements of Article IV and who is selected by the Committee to receive an Option, Right or Award.

1.15 Plan means the RCM Technologies, Inc. 1996 Executive Stock Plan.

1.16 Retirement means the voluntary termination of employment with the Company by a Participant subsequent to the Participant's completion of at least five years of employment with the Company and attainment of age 55, or otherwise with the express consent of the Board.

1.17 Right means a stock appreciation right granted under the Plan pursuant to the provisions of Section 7.1 hereof.

## **ARTICLE II**

### **PURPOSES**

The purpose of the Plan is to advance the interests of the Company and its shareholders by affording to key management employees of the Company and its Affiliates and members of the Board of Directors of the Company and its Affiliates an opportunity to acquire or increase their proprietary interest in the Company by the grant to such individuals of Options, Rights or

Awards under the terms set forth herein. By thus encouraging such individuals to become owners of Company shares, the Company seeks to motivate, retain and attract those highly competent individuals upon whose judgment, initiative, leadership and continued efforts the success of the Company in large measure depends. ARTICLE III ADMINISTRATION The Plan shall be administered by the Committee. The Committee (or the Board, in accordance with Section 4.1 below) shall have authority to grant Options and Rights or make Awards upon such terms (not inconsistent with the provisions of this Plan) as the Committee (or the Board, as applicable) may consider appropriate. Such terms may include conditions (in addition to those contained in this Plan) on the exercisability of all or any part of an Option, Right or Award. Notwithstanding any such conditions, the Committee may, in its discretion, accelerate the time at which any Option, Right or Award may be exercised. In addition, the Committee shall have complete authority to interpret all provisions of this Plan, to prescribe the form of Agreements, to adopt, amend and rescind rules and regulations pertaining to the administration of the Plan and to make all other determinations necessary or advisable for the administration of this Plan. The express grant in the Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. Any decision made, or action taken, by the Committee or in connection with the administration of this Plan shall be final and conclusive. No member of the Committee shall be liable for any act done in good faith with respect to this Plan or any Agreement or Option. All expenses of administering this Plan shall be borne by the Company.

**ARTICLE IV  
ELIGIBILITY**

4.1 General. Any officer or other key management employee of the Company or an Affiliate or member of the Board of Directors of the Company or an Affiliate, shall be eligible to participate in the Plan. The Committee may grant Options, Rights or Awards or any combination thereof to any eligible individual in accordance with such determination as the Committee from time to time in its sole discretion shall make; provided, however, that any such grant to a member of the Committee shall be made by the Board and not by the Committee.

4.2 Grants. The Committee (or the Board, as applicable) will designate individuals to whom Options, Rights or Awards are to be granted and will specify the number of shares of Common Stock subject to each grant. All Options, Rights or Awards granted under this Plan shall be evidenced by Agreements which shall be subject to applicable provisions of this Plan and to such other provisions as the Committee may adopt. By way of example and not of limitation, the Agreement evidencing an Option, Right or Award granted under this Plan may include provisions accelerating the term, terminating the Option, Right or Award upon the occurrence of certain events, a requirement that the Common Stock acquired upon the exercise of the Option, Right or Award be held under voting trust agreements and provisions regarding the repurchase or call of such shares at a defined purchase price upon the occurrence of certain events. **ARTICLE V SHARES OF STOCK SUBJECT TO THE PLAN** Subject to adjustment pursuant to the provisions of Sections 6.9 and 10.1 hereafter, the number of shares of Common Stock which may be issued and sold or otherwise granted

hereunder shall not exceed 750,000 provided, however that in the absence of Board approval no more than 250,000 shares may be subject to Awards of restricted stock hereunder. Such shares may be either authorized or unissued shares or shares issued and thereafter acquired by the Company. If an Option or Right is terminated for any reason other than its exercise, or if restricted stock is repurchased or otherwise reacquired by the Company, the number of shares of Common Stock allocated to the Option, Right or Award or portion thereof may be reallocated to other Options, Rights or Awards to be granted under this Plan. ARTICLE VI OPTIONS

6.1 Exercise Price. Unless otherwise provided in the Agreement, the price per share for Common Stock purchased on the exercise of an Option shall be the Fair Market Value of the Common Stock on the date of grant.

6.2 Maximum Exercise Period. The maximum period in which an Option may be exercised shall be determined by the Committee on the date of grant, but in no event shall such period exceed ten (10) years from the date of grant of the Option.

6.3 Nontransferability. Any Option granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution. During the lifetime of the Participant to whom the Option is granted, the Option may be exercised only by the Participant. No right or interest of a Participant in any Option shall be liable for, or subject to, any lien, obligation, or liability of such Participant.

6.4 Vesting and Exercise. Subject to the provisions of this Article VI, Article IX and Article X, Options shall vest and may be exercised by the Participant as determined by

the Committee. An Option granted under this Plan may be exercised with respect to any number of whole shares less than the full number for which the Option could be exercised. A partial exercise of an Option shall not affect the right to exercise the Option from time to time in accordance with this Plan and the applicable Agreement with respect to the shares that remain subject to the Option.

6.5 Vesting Following Termination of Employment, Retirement, Disability, Death or a Change in Control of the Company. Subject to the provisions of this Article VI, Article IX and Article X, and except as may otherwise be provided in the Agreement, the exercise of Options shall be subject to the following limitations and/or conditions:

(a) Upon the termination of the Participant's employment with the Company or an Affiliate, the vested portion of the Option shall be exercisable only during the ninety day period following the date on which the Participant's employment terminates; provided, however, that if the Company notifies the Participant in writing that the termination of the Participant's employment is for "Cause", then the vested portion of the Option may only be exercised on or before the date that the Participant's employment terminates. Thereafter, all unexercised Options shall be cancelled.

(b) In the event the Participant ceases to be employed by the Company and its Affiliates on account of the Participant's Retirement, the Participant's rights to exercise the Option shall become fully vested (to the extent they are not otherwise fully vested) and the Participant may only exercise the Option at any time within one year next following his Retirement, for the number of shares he was entitled to purchase as of the effective date of his Retirement. Thereafter, all unexercised Options shall be cancelled.

If the Participant becomes Disabled during his employment with the Company or an Affiliate, the Participant's rights to exercise the Option shall become fully vested (to the extent they are not otherwise fully vested), and the Participant may only exercise the Option within one year of the date that he ceased to be employed by the Company and its Affiliates on account of such Disability. Thereafter, all unexercised Options shall be cancelled.

(d) In the event the Participant dies (i) while employed by the Company or an Affiliate, (ii) following his Retirement and prior to the expiration of the Participant's rights under paragraph (b) of this Section 6.5, or (iii) following his termination of employment on account of Disability and prior to the expiration of the Participant's rights under paragraph (c) of this Section 6.5, the Participant's rights to exercise the Option shall become fully vested (to the extent they are not otherwise fully vested) and the Option may only be exercised by the Participant's estate, or the person or persons to whom his rights under the Option shall pass by will or the laws of descent and distribution, within one year of the Participant's death or during the remainder of the period in which the Participant could have exercised this Option under paragraph (b) or (c) of this Section 6.5, as applicable, whichever is shorter. Thereafter, all unexercised Options shall be cancelled.

6.6 Payment. Unless otherwise provided by the Agreement, payment of the Option price shall be made in cash, cash equivalent or promissory note acceptable to the Committee. If the Agreement provides, payment of all or part of the Option price may be made by surrendering shares of Common Stock to the Company. If Common Stock is used to pay all or part of the Option price, the shares surrendered must have a Fair Market Value (determined as of the day preceding the date of the exercise) that is not less than such price or part thereof. 6.6

Rights as Shareholder. No Participant shall have any rights as a shareholder with respect to shares of Common Stock subject to his Option until the Option price is paid in accordance with Section 6.6 hereof and the full amount of all withholding or other employment taxes applicable to the taxable income of such Participant resulting from the exercise of his Option is paid, in such manner as the Committee may provide.

6.8 Repurchase of Option Shares. To the extent provided by the Committee with respect to any Option grant, the Agreement shall provide that upon termination of employment of the Participant by the Company or its Affiliates for any reason other than death, Retirement or Disability as determined by the Committee, if the Company (or its successor or assignee) so elects and notifies the Participant in writing within 90 days of such termination (the "Notice of Repurchase"), all shares of Common Stock acquired by a Participant at any time upon the exercise of an Option and held by the Participant at the time of such termination or at any time thereafter shall be sold by the Participant and repurchased by the Company within 90 days of such Notice of Repurchase for the lower of the price per share which the Participant paid upon acquisition of such shares or the Fair Market Value of such shares as of the effective date of such repurchase, and the Participant shall forthwith surrender and deliver to the Company the legended certificates evidencing such shares.

6.9 Adjustment upon Changes in Common Stock.

(a) Reorganization, Merger or Sale of Assets. If at any time while an Option, or any portion thereof, is outstanding and unexpired there shall be (i) a reorganization (other than a combination, reclassification, exchange or subdivision of shares otherwise provided for herein), (ii) a merger or consolidation of the Company with or into another corporation in which the Company is not the surviving entity, or a merger in which the Company is the

surviving entity but the shares of the Company's capital stock outstanding immediately prior to the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, or (iii) a sale or transfer of substantially all of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as a part of such reorganization, merger, consolidation, sale or transfer, subject to the provisions of Section 10.2 hereafter, lawful provision shall be made so that the holder of an Option then outstanding shall upon such reorganization, merger, consolidation, sale or transfer, have the right thereafter by exercising such Option to purchase the kind and number of shares of Common Stock or other securities or property (including cash) otherwise receivable upon such reorganization, merger, consolidation or sale or transfer, by a holder of the number of shares of Common Stock that might have been purchased upon exercise of such Option immediately prior to such reorganization, merger, consolidation or sale or transfer. The foregoing provisions of this Subsection 6.9(i) shall similarly apply to successive reorganizations, consolidations, mergers, sales and transfers and to the stock or securities of any other corporation that are at the time receivable upon the exercise of an Option. If the per-share consideration payable to the Participant hereof for shares in connection with any such transaction is in a form other than cash or marketable securities, then the value of such consideration shall be determined in good faith by the Committee. In all events, appropriate adjustment (as determined in good faith by the Committee) shall be made in the application of the provisions of an Option with respect to the rights and interests of the Participant after the transaction, to the end that the provisions of an Option shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of an Option.

(a)

Reclassification. If the Company, at any time while an Option or any portion thereof, remains outstanding and unexpired, by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under such Option shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under such Option immediately prior to such reclassification or other change and the exercise price therefore (if applicable) shall be appropriately adjusted, all subject to further adjustment as provided in this Section 6.9.

(c) Split, Subdivision or Combination of Shares. If the Company at any time while an Option or any portion thereof, remains outstanding and unexpired shall split, subdivide or combine the securities as to which purchase rights under such Option exist, into a different number of securities of the same class, the exercise price (if applicable) and the number of shares issuable upon exercise of such Option shall be proportionately adjusted.

(d) Adjustments for Dividends in Stock or Other Securities or Property. If while an Option or any portion hereof, remains outstanding and unexpired the holders of the securities as to which purchase rights under such Option exist at the time shall have received, or, on or after the record date fixed for the determination of eligible shareholders, shall have become entitled to receive, without payment therefor, other or additional stock or other securities or property (other than cash) of the Company by way of dividend, then and in each case, such Option shall represent the right to acquire, in addition to the number of shares of the security receivable upon exercise of such Option and without payment of any additional consideration therefor, the amount of such other or additional stock or other securities or property (other than cash) of the Company that such holder would hold on the date of such

exercise had it been the holder of record of the security receivable upon exercise of such Option on the date hereof and had thereafter, during the period from the date hereof to and including the date of such exercise, retained such shares and/or all other additional stock, other securities or property available by such Option, Right or Award as aforesaid during such period.

## ARTICLE VII

### RIGHTS

7.1 Exercise Price. Unless otherwise provided in the Agreement, the price per share for Common Stock associated with each Right shall be the Fair Market Value of the Common Stock on the date of grant.

7.2 Maximum Exercise Period. The maximum period in which a Right may be exercised shall be determined by the Committee on the date of grant, but in no event shall such period exceed ten (10) years from the date of grant of the Right.

7.3 Nontransferability. Any Right granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution. During the lifetime of the Participant to whom the Right is granted, the Right may be exercised only by the Participant. No right or interest of a Participant in any Right shall be liable for, or subject to, any lien, obligation, or liability of such Participant.

7.4 Manner of Exercise. Subject to the provisions of Articles VII and X, a Right may be exercised in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine. A Right granted under this Plan may be exercised with respect to any number of whole shares less than the full number for which the Right could be exercised. A partial exercise of a Right shall not affect the right to

exercise the Right from time to time in accordance with this Plan and the applicable Agreement with respect to the option shares that remain subject to the Right.

7.5 Appreciation Available. Each Right shall entitle a Participant to the amount of appreciation equal to (i) the excess of the Fair Market Value of a share of Common Stock on the exercise date over (ii) the exercise price of the Right. The total appreciation available to a Participant from any exercise of Rights shall be equal to the number of Rights being exercised, multiplied by the amount of appreciation per Right determined under the preceding sentence.

7.6 Payment of Appreciation. In the discretion of the Committee, the total appreciation available to a Participant from an exercise of Rights may be paid to the Participant either in Common Stock or in cash. If paid in cash, the amount thereof shall be the amount of appreciation determined under

Section 7.5 above. If paid in Common Stock, the number of shares of Common Stock that shall be issued pursuant to the exercise of Rights shall be determined by dividing the amount of appreciation determined under Section 7.5 above by the Fair Market Value of a share of Common Stock on the exercise date of the Rights; provided, however, that no fractional shares shall be issued upon the exercise of Rights. No such payments of cash or Common Stock shall be made until the full amount of all withholding or other employment taxes applicable to the taxable income of such Participant resulting from the exercise of his Right is paid, in such manner as the Committee may provide.

7.7 Rights Tandem To Options. In the discretion of the Committee, Rights may be granted in conjunction with the grant of Options; such Rights may be in tandem with such Options. Unless otherwise provided in the Agreement all such Rights shall be subject to the vesting and exercise limitations applicable to such Options. 7.7

Rights as Shareholder. No Participant shall have any rights as a shareholder with respect to the appreciation being paid in the form of Common Stock pursuant to Section 7.6 above until the withholding and other employment tax obligations referred to therein are satisfied.

#### ARTICLE VIII

#### AWARDS

8.1 General. Each Award granted hereunder must be granted within ten years from the effective date of the Plan and shall be evidenced by a written Restricted Stock Purchase Agreement dated as of the date of the Award, which Agreement shall set forth such terms and conditions as may be determined by the Committee consistent with the Plan, including but not limited to the restrictions set forth in Section 8.3 hereof, and which Agreement shall constitute the entire agreement between the Company and the Participant with respect to such Award and the Common Stock subject thereto. No rights of the Participant under an Award or a Restricted Stock Purchase Agreement shall be transferable other than by will or the laws of descent and distribution, and such rights shall be exercisable during the Participant's lifetime only by him.

8.2 Stock Purchase Price. The per share purchase price of the Common Stock subject to each Award shall be determined by the Committee on the date of grant, and the aggregate purchase price of the Common Stock must unless otherwise agreed by the Committee be paid in full to the Company at its principal office within thirty (30) days after the date of the Award. Payment for the shares subject to each Award shall be made in cash, or in the discretion of the Committee, cash equivalent or promissory note acceptable to the Committee. 8.2

Repurchase of Shares. Upon termination of employment of the Participant by the Company or its Affiliates for any reason other than death, Retirement or Disability as determined by the Committee, if the Company (or its successor or assignee) so elects and upon delivery of a Notice of Termination within 90 days of such termination, all such shares of Common Stock awarded to the Participant and held as of the date of such termination shall be sold and repurchased by the Company within 90 days of such Notice of Repurchase for the lower of the price per share which the Participant paid upon acquisition of such shares or the Fair Market Value of such shares as of the effective date of such repurchase, and the Participant shall forthwith surrender and deliver to the Company the legended certificates evidencing such shares.

8.4 Rights as Shareholder. Subject to the provisions of

Section 8.3 hereof, upon payment by the Participant of the purchase price of restricted Common Stock as set forth in Section 8.2 hereof, and the payment of withholding and other employment tax obligations the Participant shall have all the rights of a shareholder with respect to such shares of Common Stock, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereof. **ARTICLE IX COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES** It is intended that the Options, Rights and Awards granted hereunder shall be exempt from Section 16(b) of the Exchange Act. Whenever possible, each provision of this Plan or each Agreement shall be interpreted in such a manner as to cause such Option, Right or Award to be so exempt from Section 16(b) of the Exchange Act. If a provision of this Plan or the Agreement shall cause such Option, Right or Award not to be exempt under Section 16(b) of the Exchange Act, such provision at the discretion of the Committee shall be deemed ineffective to the extent it

shall cause such failure to be exempt without invalidating the remainder of such provision, the Plan or the Agreement. The Options granted hereunder are not "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986. No Option or Right shall be exercisable, no Common Stock shall be issued, no certificates for shares of Common Stock shall be delivered, no restricted stock exchanged and no payment shall be made under this Plan except in compliance with all applicable federal and state laws and regulations (including, without limitation, withholding tax requirements), any listing agreement to which the Company is a party, and the rules of all domestic stock exchanges on which the Company's shares may be listed. The Company shall have the right to rely on an opinion of its counsel as to such compliance. Any share certificate issued to evidence Common Stock for which an Option or Right is exercised may bear such legends and statements as the Committee may deem advisable to assure compliance with federal and state laws and regulations. No Option or Right shall be exercisable, no Common Stock shall be issued, no certificate for shares shall be delivered, no restricted stock exchanged and no payment shall be made under this Plan until the Company has obtained such consent or approval as the Committee may deem advisable from regulatory bodies having jurisdiction over such matters. ARTICLE X GENERAL PROVISIONS

#### 10.1 Capital Adjustments.

(a) The maximum number of shares as to which Options, Rights or Awards may be granted under this Plan shall be proportionately adjusted, and the terms of outstanding Options, Rights or Awards shall be adjusted, as the Committee shall determine to be equitably required, in the event that the Company effects one or more stock dividends, stock

split-ups or reverse stock splits, recapitalization, combinations, reclassifications, subdivisions, consolidations of shares or like change in the capital structure of the Company. Any determination made under this Article X by the Committee shall be final and conclusive.

(b) The issuance by the Company of shares of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, outstanding awards of Options or Rights.

(c) The Committee may grant Options, Rights or Awards in substitution for stock awards, stock options, stock appreciation rights, or similar awards in connection with a transaction described in Sub-section 10.1(a). Notwithstanding any provision of the Plan (other than the limitation of Article V), the terms of such substituted Option grant shall be as the Committee, in its discretion, determines is appropriate; provided, however, that no such action by the Committee shall deprive any person, without such person's consent, of any rights previously granted pursuant to the Plan.

10.2 Termination of Options and Rights. The Committee, in its sole discretion, may terminate all or less than all of the outstanding Options and Rights in the event of the liquidation of the Company or in the event that the Company is party to a corporate transaction described in Section 6.9. In the event of such termination, the Committee shall give each Participant written notice of the termination and a period of fourteen days in which to exercise his Options and Rights, to the extent they are otherwise exercisable. The Committee, in its sole

discretion, may accelerate the exercisability of an Option or Right to allow for its exercise during such fourteen day period.  
10.3 Restrictions on Sale or Other Transfer. Each share of Common Stock purchased pursuant to each Restricted Stock Purchase Agreement or issued upon exercise of an Option or a Right shall be subject to the following restrictions:

(a) Stock certificates evidencing such shares shall be issued in the sole name of the Participant and delivered to him, and each such certificate shall bear the following legend:

(i) "THE SHARES OF RCM TECHNOLOGIES, INC. COMMON STOCK EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO REPURCHASE BY RCM TECHNOLOGIES, INC., AND SUCH SHARES MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO THE PROVISIONS OF THE RESTRICTED STOCK PURCHASE AGREEMENT BY AND BETWEEN RCM TECHNOLOGIES, INC. AND THE REGISTERED OWNER OF SUCH SHARES."

(ii) "THE SHARES OF RCM TECHNOLOGIES, INC. COMMON STOCK EVIDENCED BY THIS CERTIFICATE **HAVE NOT BEEN REGISTERED UNDER THE**

**SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144 OR RULE 701 UNDER THE ACT, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THESE SECURITIES REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT."**

No such share of Common Stock may be sold, transferred, or otherwise alienated or hypothecated so long as the certificate evidencing such share bears the legend provided for in paragraph (a)(i) of this Section 10.3.

#### 10.4 Lapse of Restrictions.

(a) Upon termination of employment of the Participant by the Company or its Affiliates by reason of, but only by reason of, death, Retirement or Disability as determined by the Committee, the lapse of the repurchase provisions of this Plan or any Agreement, and, upon surrender and presentation to the Company of the legended certificates evidencing such shares of Common Stock, the Company shall cause new certificates evidencing such shares to be issued and delivered to the Participant or his legal representative, free from the legends provided for in paragraph (a)(i) of Section 10.3 hereof.

(b) The foregoing notwithstanding, no stock certificate shall be delivered to the Participant or his legal representative as hereinabove provided unless and until the Participant or his legal representative shall have paid to the Company in cash or otherwise as the Committee may provide the full amount of all withholding or other employment taxes applicable to the taxable income of such Participant resulting from the lapse of such restrictions.

10.5 Effect on Employment, Etc. Neither the adoption of this Plan, its operation, nor any documents describing or referring to this Plan (or any part thereof) shall confer upon any individual any right to continue in the employ or service of the Company or an Affiliate or in any way affect any right and power of the Company or an Affiliate to terminate the employment or service of any person at any time with or without assigning a reason therefor.

10.6 Other Compensation Plans. The adoption of the Plan shall not affect any other stock option or incentive or other compensation plans in effect for the Company or any

Affiliate, nor shall the Plan preclude the Company or any Affiliate from establishing any other forms of incentive or other compensation for employees of the Company or any Affiliate.

10.7 Unfunded Plan. The Plan, insofar as it provides for grants, shall be unfunded, and the Company shall not be required to segregate any assets that may at any time be represented by grants under this Plan. Any liability of the Company to any person with respect to any grant under this Plan shall be based solely upon any contractual obligation that may be created pursuant to this Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

10.8 Rules of Construction. Headings are given to the articles and sections of this Plan solely as a convenience to facilitate reference. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

10.9 Governing Law. This Plan and each Agreement shall be governed by the laws of the Commonwealth of Pennsylvania. ARTICLE XI AMENDMENT The Board may amend or terminate this Plan from time to time; provided, however, that no amendment shall, without a Participant's consent, adversely affect any rights of such Participant under any Option , Right or Award that is outstanding at the time such amendment is made.

**ARTICLE XII  
DURATION OF PLAN**

No Option, Right or Award may be granted under this Plan after January 1, 2006. Options, Rights and Awards granted before that date shall remain valid in accordance with their terms. ARTICLE XIII EFFECTIVE DATE OF PLAN Options, Rights and Awards may be granted under this Plan upon its adoption by the Board.

**Approved and Adopted this 15th day of August, 1996.**

**RCM TECHNOLOGIES, INC.**

BY: \_\_\_\_\_  
Executive Officer

**Ratified By:**

Woodrow B. Moats, Jr.

---

Chairman of the Compensation Committee

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF REGISTRATION, OR THE AVAILABILITY OF EXEMPTION FROM REGISTRATION, UNDER THE SECURITIES ACT OF 1933, AS AMENDED, BASED ON AN OPINION LETTER OF COUNSEL SATISFACTORY TO THE COMPANY OR A NO-ACTION LETTER FROM THE SECURITIES AND EXCHANGE COMMISSION."

**OPTION TO PURCHASE COMMON STOCK  
OF  
RCM TECHNOLOGIES, INC.  
Void after November 21, 2006**

This certifies that, for value received, Leon Kopyt ("Holder"), is entitled, subject to the terms set forth below, to purchase from RCM TECHNOLOGIES, INC. (the "Company"), a Nevada corporation, 500,000 shares of the Common Stock of the Company (the "Shares"), commencing on the date hereof (the "Option Issue Date"), upon presentation of the Notice of Exercise attached hereto duly executed, and simultaneous payment therefor in lawful money of the United States, or as otherwise provided for herein, at the Exercise Price and subject to the other conditions set forth in Section 2 below. The number, character and Exercise Price of the Shares are subject to adjustment as provided been granted pursuant to the terms of the RCM Technologies, Inc. 1996 Executive Stock Plan (the "Plan"), and the terms of the Options granted hereunder are subject to the terms of the Plan unless otherwise granted hereunder.

1. Term of Option. Subject to compliance with the vesting provisions identified at Paragraph 2.3 hereafter, this Option shall be exercisable, in whole or in part, during the term commencing on the Option Issue Date and ending at 5:00 p.m. Eastern Standard Time, on November 21, 2006 (the 'Option Termination Date), and shall be void thereafter.

2. Exercise Price, Number of Shares and Vesting Provisions.

2.1 Exercise Price. The Exercise Price at which this Option may be exercised shall be \$7.125 per share of Common Stock, as adjusted pursuant to Section 11 hereof.

2.2 Number of Shares. The number of shares of the Company's Common Stock, \$.01 par value per share ('Common Stock') which may be purchased pursuant to this Option shall be 500,000 shares, as adjusted pursuant to Section 11 hereof.

2.3 Vesting. The Options granted hereunder shall vest in accordance with the following schedule:

(i) 125,000 Options shall vest on the Option Issue Date; (ii) 125,000 additional Options shall vest on February 28, 1997, provided Holder remains continuously employed by the Company from the Option Issue Date through February 28, 1997;

(iii) 125,000 additional Options shall vest on February 28, 1998, provided Holder remains continuously employed by the Company from the Option Issue Date through February 28, 1998; and

(iv) 125,000 additional Options shall vest on February 28, 1999, provided Holder remains continuously employed by the Company from the Option Issue Date through February 28, 1999.

#### 2.4 Partial Vesting

Notwithstanding the provisions of Paragraph 2.3 hereof:

(i) the Options identified at subparagraph 2.3(iii) shall vest on the earlier of (x) February 28, 1998, or (y) once the "market capitalization" of the Company has been equal to or greater than \$60 million for a period of thirty

(30) consecutive trading days; and

(ii) the Options identified at paragraph 2.3(iv) shall vest on the earlier of (x) February 28, 1999; or (y) once the "market capitalization" of the Company has been equal to or greater than \$75 million for a period of thirty (30) consecutive trading days. For purposes of this Paragraph 2.4, the term "trading day" shall mean any day on which the New York Stock Exchange is open for trading, and the term "market capitalization" shall be defined as the product of the "market value" (as such term is defined in the immediately following two sentences) of the Company's Common Stock and the number of shares of Common Stock outstanding as determined on each of the trading days. If the Company's Common Stock is traded in the over-the-counter market and not on any national securities exchange nor in the NASDAQ Reporting System, the market value shall be the average of the mean between the last bid and ask prices per share, as reported by the National Quotation Bureau, Inc., or an equivalent generally accepted reporting service, or if not so reported, the average of the closing bid and asked prices for a share as furnished to the Company by any member of the National Association of Securities Dealers, Inc., selected by the Company for that purpose. If the Company's Common Stock is traded on a national securities exchange or in the NASDAQ Reporting System, the market value for each of the trading days shall be the closing sale prices at which a share of the Company's Common Stock traded for each of the trading days.

2.5 Immediate Vesting. Notwithstanding the provisions of Paragraphs 2.3 and 2.4 hereof, all of the Options shall immediately vest and become immediately exercisable by Holder:

(i) If a "Change in Control" of the Company occurs;

(ii) If during the term hereof, Holder is terminated from the employ of the Company for any reason whatsoever other than for "good and sufficient cause"; or

(iii) If during the term hereof, Holder is terminated from the employ of the Company by reason of his death or disability within the meaning of Section 22(e) of the Internal Revenue Code of 1986, as amended (the "Code").

The term "Change in Control" (hereafter a "Change in Control") shall have the meaning ascribed thereto in the Amended and Restated Termination Benefits Agreement between the Company and the Holder dated November 30, 1996, the '(hereafter 'good and sufficient cause') shall have the meaning ascribed thereto in the Amended and Restated Employment Agreement between the Company and the Holder dated November 30, 1996 (the 'Employment Agreement').

## 2.6. Termination of the Option.

(i) Death or Disability. If the Holder ceases to be an employee of the Company by reason of the death or disability of the Holder within the meaning of Section 22(e) of the Code, the Option, to the extent vested and unexercised by the Holder may be exercised by the Holder (or the Holder's legal representative) at any time prior to the earlier of: (a) five (5) years from the date on which the Holder's employment by the Company is terminated; or (ii) the Option Termination Date.

(ii) Voluntary Resignation. If the Holder ceases to be an employee of the Company by reason of his voluntary resignation, the Option, to the extent unexercised and exercisable by the Holder on the date of such resignation, may be exercised by the Holder (or the Holder's legal representative) at any time prior to the expiration of one hundred and eighty (180) days from the date on which the Holder ceased to be employed by the Company, but in any event no later than the Option Termination Date.

(iii) Termination for Cause. If the Holder's employment is terminated for Good and Sufficient Cause, the Option, to the extent unexercised and exercisable by the Holder on the date of such termination, may be exercised prior to the expiration of ninety (90) days from the date in which the Holder's employment by the Company is terminated and thereafter shall be canceled.

(iv) Termination by virtue of a Change in Control or for other than Good and Sufficient Cause. The Option Termination Date and other conditions associated with the exercise of this Option shall not be effected upon a termination of Holder's employment by the Company if such termination was (a) subsequent to a Change in Control; or (b) for other than Good and Sufficient Cause.

## 3. Exercise of Option.

3.1 Payment of Exercise Price. The Exercise Price shall either be payable in cash or by bank or certified check; or by cashless exercise through the delivery by the Holder to the Company of shares of the Company's Common Stock for which Holder is the record and beneficial owner, or a withholding by the Company of shares of Common Stock that Holder is otherwise

entitled to receive upon exercise of the Option or by any combination thereof. If shares of common stock of the Company are tendered or withheld as payment of the Exercise Price, the value of such shares shall be their 'market value' as of the trading date immediately preceding the date of exercise. The 'market value' shall be:

(a) If the Company's common stock is traded in the over-the-counter market and not on any national securities exchange nor in the NASDAQ Reporting System, the market value shall be the average of the mean between the last bid and ask prices per share, as reported by the National Quotation Bureau, Inc., or an equivalent generally accepted reporting service, or if not so reported, the average of the closing bid and asked prices for a share as furnished to the Company by any member of the National Association of Securities Dealers, Inc., selected by the Company for that purpose.

(b) If the Company's common stock is traded on a national securities exchange or in the NASDAQ Reporting System, the market value shall be either (i) the simple average of the high and low prices at which a share of the Company's common stock traded, as quoted on the NASDAQ-NMS or its other principal exchange, or (ii) the price of the last sale of a share of common stock as similarly quoted, whichever is higher, and rounding out such figure to the next higher multiple of 12.5 cents (unless the figure is already a multiple of 12.5 cents). If such tender would result in an issuance of a whole number of shares and a fractional share of Common Stock, the value of such fractional share shall be paid to the Company in cash or by check by the Holder.

### 3.2 Exercise of Option.

(a) The purchase rights represented by this Option are exercisable by the Holder in whole or in part, at any time, or from time to time, by the surrender of this Option and the Notice of Exercise annexed hereto duly completed and executed on behalf of the Holder, at the office of the Company (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company).

(b) This Option shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above, and the person entitled to receive the shares of Common Stock issuable upon such exercise shall be treated for all purposes as the holder of record of such shares as of the close of business on such date. As promptly as practicable on or after such date and in any event within ten (10) days thereafter, the Company at its expense shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for the number of shares issuable upon such exercise. In the event that this Option is exercised in part, the Company at its expense will execute and deliver a new Option of like tenor exercisable for the number of shares for which this Option may then be exercised.

4. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Option. In lieu of any fractional share to which the Holder would otherwise be entitled, the Company shall make a cash payment equal to the Exercise Price multiplied by such fraction.

5. Replacement of Option. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Option and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Option, the Company at its expense shall execute and deliver, in lieu of this Option, a new Option of like tenor and amount.

6. Rights of Stockholder. Except as otherwise contemplated herein, the Holder shall not be entitled to vote or receive dividends or be deemed the holder of Common Stock or any other securities of the Company that may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value, or change of stock to no par value, consolidation, merger, conveyance or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until the Option shall have been exercised as provided herein.

7. Transfer of Option.

7.1. Non-Transferability. Prior to vesting in accordance with paragraph 2 herein, the Option shall not be assigned, transferred, pledged or hypothecated in any way, nor subject to execution, attachment or similar process, otherwise than by will or by the laws of descent and distribution. To the extent the Options have vested, transfers thereof which comply with the remaining provisions of this paragraph 7 may be undertaken upon the prior written consent of the Company, which consent shall not be unreasonably withheld. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the Option contrary to the provisions hereof, and the levy of an execution, attachment, or similar process upon the Option, shall be null and void and without effect.

7.2. Exchange of Option Upon a Transfer. On surrender of this Option for exchange, properly endorsed, the Company at its expense shall issue to or on the order of the Holder a new Option or Options of like tenor, in the name of the Holder or as the Holder (on payment by the Holder of any applicable transfer taxes) may direct, of the number of shares issuable upon exercise hereof.

7.3. Compliance with Securities Laws; Restrictions on Transfers.

(a) The Holder of this Option, by acceptance hereof, acknowledges that this Option and the Shares to be issued upon exercise hereof are being acquired solely for the

Holder's own account and not as a nominee for any other party, and for investment (unless such shares are subject to resale pursuant to an effective prospectus), and that the Holder will not offer, sell or otherwise dispose of this Option or any Shares to be issued upon exercise hereof except under circumstances that will not result in a violation of applicable federal and state securities laws. Upon exercise of this Option, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of Common Stock so purchased are being acquired solely for the Holder's own account and not as a nominee for any other party, for investment (unless such shares are subject to resale pursuant to an effective prospectus), and not with a view toward distribution or resale.

(b) Neither this Option nor any share of Common Stock issued upon exercise of this Option may be offered for sale or sold, or otherwise transferred or sold in any transaction which would constitute a sale thereof within the meaning of the Securities Act of 1933, as amended (the '1933 Act'), unless (i) such security has been registered for sale under the 1933 Act and registered or qualified under applicable state securities laws relating to the offer an sale of securities, or (ii) exemptions from the registration requirements of the 1933 Act and the registration or qualification requirements of all such state securities laws are available and the Company shall have received an opinion of counsel satisfactory to the Company that the proposed sale or other disposition of such securities may be effected without registration under the 1933 Act and would not result in any violation of any applicable state securities laws relating to the registration or qualification of securities for sale, such counsel and such opinion to be satisfactory to the Company. (c) All Shares issued upon exercise hereof shall be stamped or imprinted with a legend in substantially the following form (in addition to any legend required by state securities laws).

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY APPLICABLE STATE SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF REGISTRATION, OR THE AVAILABILITY OF EXEMPTION FROM REGISTRATION, UNDER THE SECURITIES ACT OF 1933, AS AMENDED, BASED ON AN OPINION LETTER OF COUNSEL SATISFACTORY TO THE COMPANY OR A NO-ACTION LETTER FROM THE SECURITIES AND EXCHANGE COMMISSION."

(d) Holder recognizes that investing in the Option and the Common Stock involves a high degree of risk, and Holder is in a financial position to hold the Option and the Common Stock indefinitely and is able to bear the economic risk and withstand a complete loss of its investment in the Option and the Common Stock. The Holder is a sophisticated investor and is capable of evaluating the merits and risks of investing in the Company. The Holder has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management, has been given full and complete access to information concerning the Company, and has utilized such access to its satisfaction for the purpose of obtaining information or verifying information and has had the opportunity to inspect the Company's operation. Holder has had the opportunity to ask questions of, and receive answers from the management of the Company

(and any person acting on its behalf) concerning the Option and the Common Stock and the agreements and transactions contemplated hereby, and to obtain any additional information as Holder may have requested in making its investment decision.

(e) Holder acknowledges and represents: (i) that he has been afforded the opportunity to review and is familiar with the quarterly, annual and periodic reports of the Company and has based his decision to invest solely on the information contained therein and has not been furnished with any other literature, prospectus or other information except as included in such reports;

(ii) he is at least 21 years of age; (iii) he has adequate means of providing for his current needs and personal contingencies; (iv) he has no need for liquidity for his investment in the Option or Common Stock; (v) he maintains his domicile and is not a transient or temporary resident at the address on the books and records of the Company; (vi) all of his investments and commitments to non-liquid assets and similar investments are, after his acquisition of the Option and Common Stock, will be reasonable in relation to his net worth and current needs; (vii) he understands that no federal or state agency has approved or disapproved the Option or Common Stock or made any finding or determination as to the fairness of the Option and Common Stock for investment; and (viii) he recognizes that the Common Stock is presently eligible for trading on The NASDAQ Stock Market, however, that the Company has made no representations, warranties, or assurances as to the future trading value of the Common Stock, whether a public market will continue to exist for the resale of the Common Stock, or whether the Common Stock can be sold at a price reflective of past trading history at any time in the future.

#### 8. Reservation and Issuance of Stock.

(a) The Company covenants that during the term that this Option is exercisable, the Company will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the shares upon the exercise of this Option, and from time to time will take all steps necessary to amend its Certificate of Incorporation to provide sufficient reserves of shares of Common Stock issuable upon the exercise of the Option.

(b) The Company further covenants that all shares of Common Stock issuable upon the due exercise of this Option will be free and clear from all taxes or liens, charges and security interests created by the Company with respect to the issuance thereof, however, the Company shall not be obligated or liable for the payment of any taxes, liens or charges of Holder, or any other party contemplated by paragraph 7, incurred in connection with the issuance of this Option or the Common Stock upon the due exercise of this Option. The Company agrees that its issuance of this Option shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the shares of Common Stock upon the exercise of this Option. The Common Stock issuable upon the due exercise of this Option, will, upon issuance in accordance with the terms hereof, be duly authorized, validly issued, fully paid and non-assessable.

#### 9. Notices.

(a) Whenever the Exercise Price or number of shares purchasable hereunder shall be adjusted pursuant to Section 11 hereof, the Company shall issue a certificate signed by its Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Exercise Price and number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first-class mail, postage prepaid) to the Holder of this Option.

(b) All notices, advices and communications under this Option shall be deemed to have been given, (i) in the case of personal delivery, on the date of such delivery and (ii) in the case of mailing, on the third business day following the date of such mailing, addressed as follows:



**If to the Company:**

RCM Technologies, Inc.  
2500 McClellan Avenue  
Suite 3500  
Pennsauken, NJ 08109

Attention: Chairman of the Compensation Committee

**With a Copy to:**

Stephen M. Cohen, Esquire  
Buchanan Ingersoll Professional Corporation  
1200 Two Logan Square  
18th and Arch Streets  
Philadelphia, PA 19103-2771

**and to the Holder:**

at the address of the Holder appearing on the books of the Company or the Company's transfer agent, if any.

Either of the Company or the Holder may from time to time change the address to which notices to it are to be mailed hereunder by notice in accordance with the provisions of this Paragraph 9.

10. Amendments.

(a) Any term of this Option may be amended with the written consent of the Company and the Holder. Any amendment effected in accordance with this Section 10 shall be binding upon the Holder, each future holder and the Company.

(b) No waivers of, or exceptions to, any term, condition or provision of this Option, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

11. Adjustments. The number of Shares of Common Stock purchasable hereunder and the Exercise Price is subject to adjustment from time to time upon the occurrence of those events, and in the manner established in subsection 6.9 of Article VI and in Article X of the Plan.

12. Status of the Option.

12.1 Subject to the Plan. The Option is issued under the Plan and is to be subject to the terms of the Plan unless otherwise provided for herein.

12.2 Treatment Under Relevant Tax and Securities Laws. This Option is intended to be a nonqualified stock option and shall not be treated as an incentive stock option as described in Section 422 of the Code. It is intended, however, that this Option shall be exempt from the provisions of Section 16(a) of the Securities Exchange Act of 1934, as amended.

13. Severability. Whenever possible, each provision of this Option shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Option is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision of this Option in such jurisdiction or affect the validity, legality or enforceability of any provision in any other jurisdiction, but this Option shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

14. Governing Law. The corporate law of the State of Nevada shall govern all issues and questions concerning the relative rights of the Company and its stockholders. All other questions concerning the construction, validity, interpretation and enforceability of this Option and the exhibits and schedules hereto shall be governed by, and construed in accordance with, the laws of the State of Nevada, without giving effect to any choice of law or conflict of law rules or provisions that would cause the application of the laws of any jurisdiction other than the State of Nevada.

15. Jurisdiction. The Holder and the Company agree to submit to personal jurisdiction and to waive any objection as to venue in the federal or state courts in the City of Philadelphia, Pennsylvania. Service of process on the Company or the Holder in any action arising out of or relating to this Option shall be effective if mailed to such party at the address listed in Section 9 hereof.

16. Arbitration. If a dispute arises as to interpretation of this Option, it shall be decided finally by three arbitrators in an arbitration proceeding conforming to the Rules of the American Arbitration Association applicable to commercial arbitration. The arbitrators shall be appointed as follows: one by the Company, one by the Holder and the third by the said two arbitrators, or, if they cannot agree, then the third arbitrator shall be appointed by the American Arbitration Association. The third arbitrator shall be chairman of the panel and shall be impartial. The arbitration shall take place in the City of Philadelphia, Pennsylvania. The decision of a majority of the Arbitrators shall be conclusively binding upon the parties and final, and such decision shall be enforceable as a judgment in any court of competent jurisdiction. Each party shall pay the fees and expenses of the arbitrator appointed by it, its counsel and its witnesses. The parties shall share equally the fees and expenses of the impartial arbitrator.

17. Corporate Power; Authorization; Enforceable Obligations. The execution, delivery and performance by the Company of this Agreement: (i) are within the Company's corporate power; (ii) have been duly authorized by all necessary or proper corporate action; (iii) are

not in contravention of the Company's certificate of incorporation or by-laws; (iv) will not violate in any material respect, any law or regulation, including any and all Federal and state securities laws, or any order or decree of any court or governmental instrumentality; and (v) will not, in any material respect, conflict with or result in the breach or termination of, or constitute a default under any agreement or other material instrument to which the Company is a party or by which the Company is bound.

18. Successors and Assigns. This Option shall inure to the benefit of and be binding on the respective successors, assigns and legal representatives of the Holder and the Company. IN WITNESS WHEREOF, the Company has caused this Option to be executed by its officers thereunto duly authorized. Dated: November 30, 1996

**HOLDER**

---

**Leon Kopyt**

**RCM TECHNOLOGIES, INC.**

BY: \_\_\_\_\_  
Executive Officer

**Acknowledged and Ratified**

BY: \_\_\_\_\_  
Chairman of the  
Compensation Committee



**NOTICE OF EXERCISE**

TO: [\_\_\_\_\_]

(1) The undersigned hereby elects to purchase \_\_\_\_\_ shares of Common Stock of [\_\_\_\_\_] pursuant to the terms of the attached Option, and tenders herewith payment of the purchase price for such shares in full.

(2) In exercising this Option, the undersigned hereby confirms and acknowledges that the shares of Common Stock to be issued upon conversion thereof are being acquired solely for the account of the undersigned and not as a nominee for any other party, and for investment (unless such shares are subject to resale pursuant to an effective prospectus), and that the undersigned will not offer, sell or otherwise dispose of any such shares of Common Stock except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws.

(3) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Name)

\_\_\_\_\_

(Date) (Signature)

**EXHIBIT 11****RCM TECHNOLOGIES, INC.****COMPUTATION OF EARNINGS PER COMMON SHARE****Years Ended October 31, 1996, 1995 and 1994**

	1996	1995	1994
Income			
Income applicable to common stock	\$2,367,939	\$ 849,105	\$1,426,005
Shares			
Weighted average number of common shares outstanding	4,247,907	14,669,093	14,375,386
Common stock equivalents	72,664	370,754	275,995
Total	4,320,571	15,039,847	14,651,381
Primary income per share	\$.55	\$.06	\$.10
Fully diluted earnings per share	\$.55	\$.06	\$.10

**EXHIBIT 13**  
**ANNUAL REPORT TO SECURITY HOLDERS**

[Inside Front Cover]

**RCM TECHNOLOGIES, INC.**

**Professional Staffing Specialists**

RCM Technologies, Inc. is a publicly traded corporation listed on the NASDAQ exchange (RCMT), with corporate headquarters in Pennsauken, New Jersey. Operating through three wholly-owned subsidiaries -- Cataract, Inc.; Consortium, Inc.; and Intertec Design, Inc. -- RCM is a full-service, national, outsource provider of contract, temporary and full-time personnel. Emphasis is on providing specialized professional staff in engineering, information technology and healthcare functions. RCM and its subsidiary companies serve [more than 700] clients through 29 branch offices in 11 states.

## PRESIDENT'S LETTER

### Dear Shareholders, Clients, Colleagues and Friends:

I am pleased to report that RCM Technologies, Inc. registered outstanding performance in 1996. The company grew dramatically in size and geographic scope, and 1996 was a record year in terms of revenues and earnings. Earnings per share rose 96%, from \$.28 in 1995 to \$.55 in 1996, on revenue growth of 127%, from \$26.9 million in 1995 to \$61.0 million in 1996.

In addition to corporate growth in revenue and earnings, RCM also achieved significant advances in market capitalization. RCM's stock price increased 178% to \$9.56 per share by fiscal year end, compared to \$3.34 at year end 1995. In brief, 1996 has been an exceptional year for RCM and its stockholders.

Further, 1996 was a year of dramatic strategic transformation for RCM. The company's overall size was increased to compete more effectively for larger clients. Also, the company's traditional base of expertise in professional engineering and technical personnel was broadened to include specialties in information technology and healthcare personnel. Both transformations, accomplished primarily by means of strategic acquisitions, greatly enhance our company's national market presence and our depth of experienced management.

The 1996 acquisition of Consortium, Inc., a strong regional provider of specialty staffing, establishes RCM in the two fast-emerging professional arenas of information technology and healthcare staffing. The 1995 acquisition of Cataract, Inc. expanded the company's existing strength in the engineering, technical, scientific and public utilities fields.

To maximize growth, profitability and consistent high earnings under a variety of market conditions, RCM emphasizes the acquisition of entities in fields with rapidly accelerating personnel needs and most favorable profit margins. Consortium and Cataract fit these criteria and fulfill our goal of focusing ever more prominently on areas of specialty professional staffing.

We see our role in the industry as that of efficient consolidator. Since many staffing organizations are small and privately held, there are abundant potential candidates for acquisition. In the coming year, we intend to continue the company's expansion through strategic acquisitions.

With growth and results come recognition. Our success has produced increased visibility for RCM among various investment communities.

The outlook for RCM Technologies, Inc. is exciting. We anticipate another rewarding year, and we expect that RCM's growth in per share earnings will be recognized by the public marketplace.

With thanks to our talented management team and to the invaluable contributions of our highly skilled employees throughout the nation, I look forward confidently to another record year.

Sincerely,

**LEON KOPYT**  
**Chairman of the Board, President and Chief Executive Officer.**

## RCM IN BRIEF

Balanced organization.

RCM is the parent company for three wholly-owned subsidiaries, as shown here.

**[INSERT ORGANIZATION CHART.]**

Founded in 1968, Intertec Design, Inc. is headquartered in Cherry Hill, NJ. Intertec has approximately 1,500 employees under contract, primarily in the field of professional engineering and scientific support services. Consortium, Inc., founded in 1975, provides approximately 800 employees to organizations in information technology, healthcare and general office administration. Cataract, Inc., founded in 1976, has approximately 150 employees under contract daily, primarily in the fields of professional engineering and technical and scientific support services.

About 80 percent of RCM's revenue is derived from professional specialty staffing and 20 percent from general administrative and clerical personnel. Emphasis will continue to be on professional and technical specialty segments.

**[INSERT REVENUE PIE CHART.]**

### **Diversified Staffing Specialists**

The combined RCM companies provide 2,450 full-time and part-time, on and off-site contract employees annually to clients through 29 offices nationwide, with greatest concentration in the eastern and far western regions of the nation. Staffing disciplines include:

1. Professional engineers, designers, drafters, CAD/CAM and technical staff.
2. Computer consultants, analysts and technicians, including communications, software and network services.
3. Speech, occupational and physical therapists and relief nurses.
4. General office, clerical, administrative and light industrial personnel.

### **Lower Overhead; Dedicated Client Service.**

RCM's corporate management and administrative infrastructure are streamlined to accelerate the smooth integration of acquired companies and to maintain a competitive cost structure. Fully automated, centralized corporate support services help achieve economies of scale while leaving branch offices free to deliver highly responsive and individualized service to clients.

### **Increased Visibility Spurs Investor Interest.**

As the investment community identifies an emerging high-growth company that excels, this generally leads to higher stock value for shareholders and additional leverage for the company to finance future growth. RCM has received noteworthy positive coverage this year from securities' analysts and institutional research firms. The attention of independent analysts has helped raise RCM's profile among investors, lenders and potential acquisition targets.

## INDUSTRY OVERVIEW

Downsizing creates unparalleled opportunity.

In the wake of downsizing and the accompanying reduction of internal operations to core elements, more and more U.S. companies are relying on staffing providers and outsourcers like RCM Technologies to fill their needs for specialized professionals for short or long-term assignments. The advantages of outsourcing and contract employment have become quickly and irrefutably evident to the lean companies of the '90s, and all indications are that the trend will not only continue but also intensify.

Delivering flexibility now and for the future.

Companies today want to concentrate on their core businesses -- not on the intricacies of human resource functions. RCM delivers highly qualified employees where, when and for how long they are needed -- with contracts customized to meet each client's precise requirements. The client company can easily expand or contract its workforce without assuming long-term commitment or responsibility for regulatory compliance and other employer details. RCM performs human resource functions for clients, including continuing education and upgrading of workers' professional skills as technology continues to transform the workplace.

Emerging markets -- "knowledge jobs" and specialists.

Every industry feels the impact of changing technology. On-staff specialists are needed to keep up with advances, whether in CAD/CAM applications at engineering firms or for updating computerized patient charts in state-of-the-art hospitals. Information technology is a science that barely existed ten years ago; now most corporations need these knowledge workers to stay current.

RCM meets clients' demands for high-caliber, experienced, trained professionals and technicians in fast-growing specialties, whether the client needs them full time for years or on demand for short-term projects.

## CAPTURING OUR MARKET

### Building Long-term Relationships.

Success in the staffing industry is an ongoing process based on long-time partnering with clients. In RCM's almost 30 years of operation through our Intertec unit, we have established enduring relationships of mutual trust in which clients rely on RCM to fill contingent needs and to act in their best interests as a surrogate human resource department. Dozens of high-profile national clients have chosen RCM as a provider for more than ten years, including these:

AT & T	Dow Chemical USA	Paramount Pictures
Amtrak	Dow Corning Corp.	Price Waterhouse
Astra Merck	Ethan Allen	Public Service Electric & Gas
Bayer Corp.	First Chicago	Reynolds Metals Co.
Bell Atlantic	General Electric	Sandoz Pharmaceuticals
Boeing	Goya Foods	Sears
Brunswick Corp.	Guess ?, Inc.	Showtime Networks, Inc.
Chesebrough Pond's USA	Hemlock Semiconductor	Steelcase, Inc.
Citibank	MCI	Swiss Bank
City of Los Angeles, CA	Mellon Bank	The Chase Manhattan Bank
City of Pasadena, CA	Mercedes Benz	Tennessee Valley Authority
Consolidated Edison	Merrill Lynch	United Parcel
Coopers & Lybrand	Northeast Utilities	United Technologies, Inc.
Deloitte & Touche	PECO Energy	Westinghouse

### Providing Exceptional Value Added: "Enabling" Our Clients' Success

RCM's outstanding client retention record attests to the company's ability to respond appropriately, responsibly and quickly to client needs. This includes the ability to anticipate what new employment sectors will be most necessary and valuable for our clients' future success in meeting the demands of their workplace, business climate and competitive environment.

RCM recruits and cultivates superbly qualified employees and keeps them constantly challenged and consistently competent to meet technology's latest advances and clients' evolving needs. The educational edge is kept sharp by on-site training at RCM and through RCM's affiliations with educational institutions.

Reducing employment complexity for clients.

RCM relieves the client's burden of the human resource function. RCM manages the administrative and regulatory compliance complexities involved in being an employer -- even developing incentive plans, professional career tracks, and promotional opportunities to keep workers interested, motivated and aimed at continual improvement.

Projects for clients can be performed on-site at RCM facilities, saving overhead for clients and ensuring total confidentiality of projects. RCM can also provide engineers and other professionals with established clearance at the U.S. Defense Department's "Secret" level.

## **FUTURE PROSPECTS**

The transformation of RCM Technologies, Inc. continues with an aggressive acquisition strategy, seeking staffing companies with strong regional presence and significant revenues and client bases. Emphasis is on identifying management talent and strategic business development opportunities in high-margin specialist professional sectors with diverse geographic coverage and intrinsic cultural diversity.

At RCM, members of our outsourcing workforce are flexible, professional, mobile, cross-trained, entrepreneurial and performance-oriented. We consistently and completely equip our clients to meet the specialized manpower challenges of lean organizations. Looking ahead, we see that the continuing downsizing of U.S. corporations provides the most conducive opportunity for RCM's continuing rise to the top of the field.

The Source of Capable, Qualified, Specialized Professional Staff As Needed: RCM.

XXX

The Company's Common Stock is traded on the NASDAQ Small Cap Market under the NASDAQ Symbol RCMT. The following table sets forth high and low bid prices by calendar quarters for the periods indicated, as reported by the National Association of Securities Dealers, Inc. Bid quotations represent prices between dealers; they do not include retail markups, markdowns or other fees or commissions and do not necessarily represent actual transactions.

		Common Stock	
Fiscal 1995		High	Low
First	Quarter	3.75	2.97
Second	Quarter	3.90	3.28
Third	Quarter	3.44	2.50
Fourth	Quarter	4.06	2.97
Fiscal 1996			
First	Quarter	6.25	2.66
Second	Quarter	13.25	4.22
Third	Quarter	15.38	5.75
Fourth	Quarter	12.88	7.00

### Holders

As of January 7, 1997, the approximate number of holders of record of the Company's Common Stock was 1,858. Based upon the requests for proxy information in connection with the Company's most recent Annual Meeting of Stockholders, the Company believes the number of beneficial owners of its Common Stock exceeds 4,800.

### Dividends

The Company has never declared or paid a cash dividend on its Common Stock. 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. The Company's Revolving Credit Facility prohibits the payment of dividends or the making of distributions on account of the capital stock without the consent of Mellon Bank, N.A.

### Shares Eligible for Future Sale

As of January 7, 1997, the Company has 4,815,676 shares of Common Stock outstanding. Of these shares, a total of approximately 2,889,913 are freely tradeable without restriction or further registration under the Securities Act. The remaining 1,928,263 shares of Common Stock outstanding are "Restricted Securities" as that term is defined in Rule 144 under the Securities Act, of which approximately 1,847,763 are held by "Affiliates" (as defined in the Securities Act) of the Company.

The Restricted Securities are subject to all of the limitations on resale imposed by Rule 144. In general, under Rule 144 as currently in effect, any affiliate of the Company or any person (or persons whose shares are aggregated in accordance with the Rule) who has beneficially owned Restricted Securities for at least two years would be entitled to sell, within any three-month period, a number of shares that does not exceed the greater of 1.0% of the outstanding shares of Common Stock and the reported average weekly trading volume in the over-the-counter market for the four weeks preceding the sale. Sales under Rule 144 are also subject to certain manner of sale restrictions and notice requirements and to the availability of current public information concerning the Company. Persons who have not been affiliates of the Company for at least three months and who have held their shares for more than three years are entitled to sell Restricted Securities without regard to the volume, manner of sale, notice and public information requirements of Rule 144.

### Shares Eligible for Future Sale - (Continued)

Sales of Restricted Securities, may, however, occur prior to the expiration of the holding period under Rule 144 by virtue of registration rights granted by the Company in connection with the recent acquisitions of Cataract, The Consortium, Consort MD, as well as the recent placement to Limeport Investments, LLC, a principal stockholder. Pursuant to these registration rights, the Company has agreed to file a registration statement with the Securities and Exchange Commission for the purpose of permitting open market or private resales of shares of Common Stock held by such stockholders on the following basis:

Amount of Shares	Date of Registration
276,625 shares	February 15, 1997
1,300,000 shares	February 15, 1997
36,827 shares	May 1, 1998
312,311 shares	August 30, 1998

## 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. The pro forma consolidated financial data give effect to all businesses acquired by the Company through October 31, 1996, as if such acquisitions were consummated as of the beginning of the period. The pro forma results of operations are not necessarily indicative of the results that would have occurred had the acquisitions been consummated as of the beginning of the period or that might be attained in the future.

	Pro Forma 1996	Historical Year Ended October 31, 1996	1995	1994	1993	1992
<b>Income Statement</b>						
Revenues	\$75,075,000	\$61,039,173	\$26,915,737	\$29,238,995	\$28,633,408	\$26,864,305
Income from continuing operations	\$ 2,764,000	\$ 2,367,939	\$ 849,105	\$ 1,426,005	\$ 733,025	\$ 91,879
Loss from discontinued operations						(\$ 1,029,186)
Net income (loss)	\$ 2,764,000	\$ 2,367,939	\$ 849,105	\$ 1,426,005	\$ 733,025	(\$ 937,307)
<b>Earnings (Loss) per Share</b>						
Income from continuing operations	\$.57	\$.55	\$.28	\$.49	\$.25	\$.03
Loss from discontinued operations						(\$ .36)
Total primary (1)	\$.57	\$.55	\$.28	\$.49	\$.25	(\$ .33)
Fully diluted	\$.57	\$.55	\$.28	\$.49	\$.25	(\$ .33)
<b>Balance Sheet</b>						
Working capital		\$ 6,771,434	\$ 3,327,904	\$5,200,609	\$3,736,073	\$ 2,942,756
Total assets		\$ 24,406,620	\$ 10,301,555	\$6,546,839	\$5,333,939	\$ 5,096,528
Long term debt		\$ 562,312		\$ 35,496	\$ 74,397	\$ 128,600
Total liabilities		\$ 8,186,510	\$ 2,774,970	\$1,069,359	\$1,287,932	\$ 1,802,140
Shareholders' equity		\$16,220,110	\$ 7,526,585	\$5,477,480	\$4,046,007	\$ 3,294,338

(1) Based on average number of common stock outstanding during the years ended October 31, 1996, 1995, 1994, 1993 and 1992 of 4,320,571, 3,007,969, 2,930,276, 2,878,411 and 2,867,913, respectively (net of treasury stock).

# RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis of

### Financial Condition and Results of Operations

#### **Private Securities Litigation Reform Act Safe Harbor Statement**

When used in or incorporated by reference into this Report, the words "estimate," "project," "intend," "expect" and similar expressions are intended to identify forward-looking statements regarding events and financial trends which may affect the Company's future operating results and financial position. Such statements are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially. Such factors are described in summary within the Company's Annual Report on Form 10-K for the year ended October 31, 1996.

#### **Introduction**

Through its wholly-owned subsidiaries, the Company offers a broad range of staffing services through its four (4) primary operating groups: Professional Engineering and Technical, Information Technology, Specialty Health Care and General Staff Support. The Company provides services on a national basis through 29 branch offices in 11 states to a well diversified base of national, regional and local clients. To respond to fragmentation of the industry and in order to better serve the needs of larger national and regional accounts, since 1994 one of the Company's principal business strategies was to achieve growth through expansion and acquisition. Towards this end, since 1994, the Company has successfully completed the acquisition of five (5) companies, each with long-standing operating histories and well established management and infrastructures. In addition, the Company continues to identify and engaged in discussions with possible acquisition candidates.

The acquisitions have been accounted for using the purchase method of accounting. Accordingly, the results of operations for each of the acquired companies has only been included within the Company's consolidated results of operations following the date of acquisition. On a proforma basis, had the acquisitions completed during fiscal 1996 occurred on November 1, 1995, the Company's revenues and net income during Fiscal 1996 would have been approximately \$75 million and \$2.8 million, respectively.

Since 1994, the Company has experienced significant growth reflected in, among other factors, the addition of 18 new offices and an increase in gross revenues and net income from \$29.2 million and \$1.4 million to \$61 million and \$2.4 million, respectively

The Company has also adopted as one of its primary operating strategies a shift towards higher margin more specialized services. The historical origins of the temporary staffing industry in the low margin clerical labor force have been replaced by higher margin technically challenging positions involving the delivery of health care, engineering, computer and information technology services.

Temporary personnel placed by the Company are generally employed by the Company. Accordingly, the Company is responsible for employee workers' compensation, unemployment compensation, insurance, Medicare and Social Security Taxes and general payroll expenses. Generally, the Company bills its clients for the hourly wages paid to its temporary employees plus a negotiated markup. Depending on the arrangements negotiated with the client, the markup may be fixed or may allow direct pass-through of increases in expenses such as unemployment compensation insurance and workers' compensation insurance. Because the Company generally pays its temporary employees only for the hours they actually work, wages for the Company's temporary personnel are a variable cost that increase or decrease in proportion to revenue.

# RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis of

### Financial Condition and Results of Operations - (Continued)

#### Introduction - (Continued)

The Company continues to direct its resources and streamline its operations in response to changing economic conditions. The Company has developed an operating model which consists of a strong balanced approach to management, while maintaining an entrepreneurial spirit. Corporate management focuses on the overall performance of the Company. It establishes and maintains financial controls and provides financial data processing and administrative assistance to all its operating offices. It develops the business strategy, goals and general operating guidelines for the Company, maintains strong relationships with the Company's principal customers, and oversees local management of operations. The Company believes that its performance-based compensation structure is a key factor to its success.

The present downsizing of U.S. Corporations is a "permanent phenomenon" which management believes is essential in order to achieve productivity improvements, payroll cost reduction and work force flexibility.

#### Results of Operations

	Years Ended October 31,		
	1996	1995	1994
Revenues	\$61,039,173	\$26,915,737	\$29,238,995
Cost of Services	\$48,779,886	\$22,378,817	\$23,863,889
Selling, general and administrative	\$8,914,102	\$3,549,810	\$3,674,102
Depreciation and amortization	\$329,680	\$130,397	\$93,141
Interest expense	\$163,811	\$38,158	\$34,196
Income before income taxes	\$2,821,478	\$942,605	\$1,613,048
Income taxes	\$453,539	\$93,500	\$187,043
Net income	\$2,367,939	\$849,105	\$1,426,005
Earnings per share	\$ .55	\$ .28	\$ .49

#### Year Ended October 31, 1996 Compared to October 31, 1995

Summary. Revenues, gross profit, operating income and net income of the Company for the 1996 period increased \$34 million (127%), \$7.7 million (170%), \$2.2 million (252%), and \$1.5 million (179%), respectively, compared with 1995. These improvements were primarily due to revenue growth through acquisitions of Cataract, Inc. (August 30, 1995) and The Consortium (March 11, 1996) and The Consortium of Maryland, Inc. (May 1, 1996) and Performance Staffing, Inc. (September 13, 1996).

Corporate level expenses (included with selling, general and administrative expenses) relating to salaries and benefits of personnel responsible for corporate activities, including its acquisition program and certain marketing, administrative and reporting responsibilities were 2.5% of revenues in 1996 as compared to 4.6% of revenues in 1995. This was a 45.7% decrease.

# RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis of

### Financial Condition and Results of Operations - (Continued)

#### Results of Operations - Continued

Year Ended October 31, 1996 Compared to October 31, 1995

Results of operations for the year ended October 31, 1996 reflected a net income of \$2,368,000 (\$.55 per share) as compared to \$849,000 (\$.28 per share) for the year ended October 31, 1995. Net income has been calculated after taking into account the effect of the available net operating loss tax carryforward (NOL). Without giving effect to the NOL, the Company's earnings per share, on a fully taxed basis, for the year ended October 31, 1996 and 1995 would have been \$.38 and \$.18, respectively.

Gross profit increased by \$7.7 million to \$12.3 million, or 170.2% for the year ended October 31, 1996 compared to the year ended October 31, 1995. Gross profit as a percentage of revenues was 20.1% for 1996 and 16.9% for 1995. The increased gross profit percentages resulted from higher gross profit margins of the acquired businesses.

Cost of services increased by \$26.4 million to \$48.8 million or 118.0% for the year ended October 31, 1996 compared to \$22.4 million for the year ended October 31, 1995. This increase resulted from increased sales in 1996. Cost of sales, as a percentage of net revenues, was 79.9% and 83.1% for fiscal years ended October 31, 1996 and 1995, respectively. This improvement resulted from higher gross profit margins of the acquired businesses.

Selling, general and administrative expenses (SG&A) increased \$5.4 million to \$8.9 million or 14.6% of revenues for the year ended October 31, 1996 as compared to 13.2% of revenues for the year ended October 31, 1995. The increased SG&A was principally attributable to the aforementioned acquisitions. The increase in SG&A expenses primarily related to the acquisitions and internal growth of the operating companies post acquisition. The increase in SG&A as percentage of revenues (1.4%) resulted from one time charges incurred in connection with the reverse stock split, implementation of a shareholder rights plan and operational integration of the acquired companies.

Depreciation and amortization increased by \$199,000 to \$330,000 for the year ended October 31, 1996, compared to \$130,000 for the year ended October 31, 1995. This increase was attributable to the amortization of intangible assets incurred with acquisitions. Intangible assets consisted primarily of goodwill and are being amortized over a forty (40) year life.

Income tax expense increased by \$360,000 to \$454,000 for the year ended October 31, 1996, compared to \$93,500 for the year ended October 31, 1995. This increase was attributable to the higher level of profitability for 1996.

Interest expense increased by \$126,000 to \$164,000 for the year ended October 31, 1996, compared to \$38,000 for the year ended October 31, 1995. This increase was attributable to funds required for acquisitions as well as the refinancing of acquired companies' working capital debt to more favorable terms and conditions available under the Company's line of credit facility.

Interest income and other consisted principally of interest income for the year ended October 31, 1995. Interest income declined to \$-0- for the year ended October 31, 1996. This decline resulted from the increased working capital requirements necessary to support \$13,985,000 of accounts receivable at October 31, 1996.

#### Results of Operations

Year Ended October 31, 1995 Compared to October 31, 1994

Summary. Revenues, gross profit, operating income and net income of the Company of the 1995 period decreased \$2.3 million (7.9%), \$.8 million (15.6%), \$.8 million (46.7%) and \$.6 million (40.5%), respectively, compared with 1994.

# RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis of

### Financial Condition and Results of Operations - (Continued)

#### Results of Operations - Continued

Year Ended October 31, 1995 Compared to October 31, 1994

The Company's net sales decreased \$2.3 million or 7.9% from 1994. This results principally from a reduction of services provided to a major customer who in turn has reduced its requirements for contract technical workers. Sales to the major customer decreased by \$4.5 million or 57.8% from 1994. The reduction in sales to the major customer was partially offset by sales generated from the 1995 acquisitions of Great Lakes Design, Inc. and Cataract, Inc.

Cost of sales decreased \$1.5 million or 6.2% from 1994. The gross profit percentage for 1995 was 16.9% as compared to 18.4% for 1994. This was a consequence of the reduction in higher gross profit sales mix which was attributed to the decline in sales to the major customer.

Selling, general and administrative expenses decreased \$124,000 or 3.4% from 1994. This resulted from continuing efforts to streamline operating expenses as well as efforts to increase productivity of administrative and support activities.

Interest expense increased \$4,000 or 11.6% from 1994. This resulted from the use of the Company's credit facility in the two months following the acquisition of Cataract, Inc.

Other, net, included under the caption Other Income (Expense) and consisting principally of interest income, increased \$85,000 or 215% from 1994 due to the short term placement of the Company's cash reserves prior to the acquisition of Cataract, Inc.

Income tax expense decreased \$94,000 as a result of the lower level of pre-tax profit for the year ended October 31, 1995.

#### Seasonal Variations

The Company's quarterly operating results are affected primarily by the number of billing days in the quarter and the seasonality of its customers' businesses. The Company usually experiences higher revenues in its fourth quarter due to increased economic activity and experiences lower revenues in the first four months of the following year, showing gradual improvement over the remainder of the year.

#### New Standards

In October 1995, the Financial Accounting Standards Board issued Statement No. 123, Accounting for Stock-Based Compensation, which is effective beginning in 1996. This statement encourages the fair value based method of accounting for stock options and similar equity instruments granted to employees. This method requires that the fair value of equity instruments granted to employees be recorded as compensation expense. However, the statement allows companies to continue to use the intrinsic value based method which, in most cases, does not result in a charge to earnings. The Company will not adopt the fair value based method of accounting for stock options. However, if the fair value based method of accounting were applied to grants of stock options in 1996, the effect would not be material.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("Statement 121"), which requires companies to review long-lived assets and certain identifiable intangibles to be held, used or disposed of, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company has adopted Statement 121, which had no significant effect on the financial statements.

# RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## Management's Discussion and Analysis of

### Financial Condition and Results of Operations - (Continued)

#### Liquidity and Capital Resources

During the year ended October 31, 1996, working capital increased \$3,444,000. This was due primarily to the increased levels of profitability of the Company and the private placement of common stock for \$1,000,000. At October 31, 1996, the Company had outstanding borrowings under its credit facility of \$2,747,000 as compared to \$914,000 as of October 31, 1995, an increase of \$1,833,000. The Company, at October 31, 1996, had \$562,000 in long term liabilities and had \$6,991,000 of loan availability on its \$10,000,000 line of credit (increased to \$20,000,000 on December 19, 1996).

During the year ended October 31, 1996, operating activities used \$1,917,000 of cash compared to cash provided by operating activities of \$1,100,000 during the equivalent period in 1995. The decrease of \$3,017,000 was primarily attributable to an increase in accounts receivable and a decrease in accounts payable which were offset by increased levels of profitability, depreciation and amortization during that period compared to the year ended October 31, 1995.

Cash used for investing activities totaled \$1,223,000 for the year ended October 31, 1996 compared to \$2,421,000 during the equivalent period in 1995. The decrease was primarily attributable to the increased use of common stock for acquisitions in fiscal year 1996 compared to the equivalent period in 1995.

Cash provided by financing activities was \$2,848,000 for the year ended October 31, 1996 compared to a use of cash of \$916,000 during the equivalent period in 1995. The increase was attributable to the private placement of common stock for \$1,000,000 and the proceeds from short term borrowings.

On December 19, 1996, the Company and its subsidiaries entered into an amended and restated loan agreement with Mellon Bank, N.A. for providing a credit facility up to \$20,000,000. The agreement expires on June 30, 1999. The credit facility is collateralized by accounts receivable, contract rights and furniture and fixtures together with unlimited guarantees from the Company. The credit facility requires the subsidiaries and the Company to meet certain financial objectives and maintain certain financial covenants with respect to net income, effective net worth, working capital, senior indebtedness to effective net worth ratios, capital expenditures, current assets to current liabilities ratios, consolidated working capital and consolidated tangible net worth. At October 31, 1996, the Company and its subsidiaries were in compliance with all financial objectives and covenants contained in the amended and restated loan agreement.

Credit facility advances are to be used to meet cash flow requirements for the subsidiaries as well as operating expenses for the Company. The Company believes its present credit facility will sufficiently support its operations and those of its subsidiaries. Borrowing under the credit facility is based on 85% of accounts receivable on which not more than ninety days have elapsed since the date of invoicing. The interest rate charged by the bank, under the amended and restated agreement will be based on the London Interbank Offered Rate ("LIBOR") plus 2.25%.

The Company's business strategy is to achieve growth both internally through operations and externally through strategic acquisitions. The Company's liquidity and capital resources may be affected in the future as the Company continues to grow through implementation of this strategy which may involve acquisitions facilitated through the use of cash and/or debt and equity securities.

The Company does not currently have material commitments for capital expenditures and does not anticipate entering into any such commitments during the next twelve months. The Company continues to evaluate acquisitions of various businesses which are complementary to its current operations. 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.

## RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

### Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

#### **Liquidity and Capital Resources - (Continued)**

During the third quarter, the Company received a request for contribution in an unspecified amount from the purchaser of a property in 1977 on which the Company had previously conducted the storage and handling of certain aluminum recovery materials. The purchaser has suggested that, based upon an order by the California Regional Water Quality Control Board, the Company's handling and storage of certain materials on the site prior to and after the sale may have contributed to environmental contamination of the ground water on and around the site. Any such contamination was discovered years after the sale.

Based upon the results of a preliminary examination of the matter, which includes an environmental survey of the property conducted prior to the time of the sale, the Company believes that the site in question complied with all environmental rules and regulations at the time of the sale and that any contamination was likely caused by the operation of the purchaser thereafter.

The Company continues to examine this matter. Until full evaluation is completed, any possible significance of this matter cannot be determined.

#### **Impact of Inflation**

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

**Financial Data**

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**

**FORM 10-K**

**INDEX TO FINANCIAL STATEMENTS AND SCHEDULES**

	Page
Independent Auditors' Report	F-2
Consolidated Balance Sheets, October 31, 1996 and 1995	F-3
Consolidated Statements of Income, Years Ended October 31, 1996, 1995 and 1994	F-5
Consolidated Statements of Changes in Shareholders' Equity, Years Ended October 31, 1996, 1995 and 1994	F-6
Consolidated Statements of Cash Flows, Years Ended October 31, 1996, 1995 and 1994	F-7
Notes to Consolidated Financial Statements	F-9

**Schedules I and II F-20**

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
RCM Technologies, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of RCM Technologies, Inc. and Subsidiaries (a Nevada corporation) as of October 31, 1996 and 1995 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended October 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RCM Technologies, Inc. and Subsidiaries as of October 31, 1996 and 1995 and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 1996 in conformity with generally accepted accounting principles.

We have also audited Schedules I, and II of RCM Technologies, Inc. and Subsidiaries as of and for each of the three years in the period ended October 31, 1996. In our opinion, these schedules present fairly, in all material respects, the information required to be set forth therein.

*/s/ Grant Thornton LLP  
Grant Thornton LLP  
Philadelphia, Pennsylvania  
December 16, 1996  
(Except for Note 6 as to which the date is December 19, 1996 and Note 17 as to  
which the date is January 7, 1997)*

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**October 31, 1996 and 1995**

ASSETS

	1996	1995
Current assets		
Cash and cash equivalents	\$ 5,989	\$ 297,550
Accounts receivable, net of allowance for doubtful accounts of \$76,000 - 1996; \$15,000 - 1995	13,985,445	5,133,662
Prepaid expenses and other current assets	404,198	671,662
	-----	-----
Total current assets	14,395,632	6,102,874
	-----	-----
Property and equipment, at cost		
Equipment and leasehold improvements	1,644,831	1,208,317
Less: accumulated depreciation and amortization	1,142,740	763,966
	-----	-----
	502,091	444,351
	-----	-----
Other assets		
Deposits	88,039	43,074
Intangible assets (net of accumulated amortization of \$366,337 and \$73,492 in 1996 and 1995, respectively)	9,420,858	3,711,256
	-----	-----
	9,508,897	3,754,330
	-----	-----
Total assets	\$24,406,620	\$10,301,555
	=====	=====

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

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS - CONTINUED**  
**October 31, 1996 and 1995**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	1996	1995
Current liabilities		
Note payable - bank	\$ 2,746,636	\$ 914,435
Accounts payable and accrued expenses	734,791	472,107
Accrued payroll	2,789,725	1,182,934
Taxes other than income taxes	432,607	205,494
Income taxes payable	920,439	-----
	-----	-----
Total current liabilities	7,624,198	2,774,970
	-----	-----
Income taxes payable	562,312	-----
	-----	
Shareholders' equity		
Preferred stock, \$1.00 par value; 5,000,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.05 par value; 40,000,000 shares authorized; 4,878,476 and 3,255,024 shares issued in 1996 and 1995, respectively	243,924	162,751
Additional paid-in capital	17,161,105	10,916,692
Treasury stock, at cost 62,800 shares	( 62,821)	( 62,821)
Accumulated deficit	( 1,122,098)	( 3,490,037)
	-----	-----
	16,220,110	7,526,585
	-----	-----
Total liabilities and shareholders' equity	\$24,406,620	\$10,301,555
	=====	=====

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

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years Ended October 31, 1996, 1995 and 1994**

	1996 ----	1995 ----	1994 ----
Revenues	\$61,039,173 -----	\$26,915,737 -----	\$29,238,995 -----
Operating Costs and Expenses			
Cost of services	48,779,886	22,378,817	23,863,889
Selling, general and administrative	8,914,102	3,549,810	3,674,102
Depreciation and amortization	329,680 -----	130,397 -----	93,141 -----
	58,023,668 -----	26,059,024 -----	27,631,132 -----
Operating Income	3,015,505 -----	856,713 -----	1,607,863 -----
Other Income (Expense)			
Interest expense	( 163,811)	( 38,158)	( 34,196)
Other, net	( 30,216) -----	124,050 -----	39,381 -----
	( 194,027) -----	85,892 -----	5,185 -----
Income Before Income Taxes	2,821,478 -----	942,605 -----	1,613,048 -----
Income Taxes	453,539 -----	93,500 -----	187,043 -----
Net Income	\$ 2,367,939 =====	\$ 849,105 =====	\$ 1,426,005 =====
Net Income Per Share	\$.55 =====	\$.28 =====	\$.49 =====
Weighted average number of shares outstanding	4,320,571 =====	3,007,969 =====	2,930,276 =====

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

**RCM TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**YEARS ENDED OCTOBER 31, 1996, 1995 AND 1994**

	Common Shares -----	Stock Amount -----	Additional Paid-in Capital -----	Accumulated Deficit -----	Treasury Stock -----
Balance, October 31, 1993	2,937,713	146,885	9,727,090	(\$5,765,147)	(\$62,821)
Exercise of stock options	5,000	250	5,218		
Net income	-----	-----	-----	1,426,005	-----
Balance, October 31, 1994	2,942,713	147,135	9,732,308	( 4,339,142)	( 62,821)
Issuance of common stock in connection with acquisitions	312,311	15,616	1,184,384		
Net Income	-----	-----	-----	849,105	-----
Balance, October 31, 1995	3,255,024	162,751	10,916,692	( 3,490,037)	( 62,821)
Exercise of stock options	10,000	500	15,438		
Issuance of common stock in connection with acquisitions	1,336,827	66,841	5,242,807		
Sale of common stock	276,625	13,832	986,168		
Net Income	-----	-----	-----	2,367,939	-----
Balance, October 31, 1996	4,878,476 =====	\$243,924 =====	\$17,161,105 =====	(\$1,122,098) =====	(\$62,821) =====

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

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended October 31, 1996, 1995 and 1994**

	1996 ----	1995 ----	1994 ----
Cash flows from operating activities:			
Net income	\$2,367,939 -----	\$ 849,105 -----	\$1,426,005 -----
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	329,680	130,397	93,141
Provision for losses on accounts receivable	61,000		5,000
Changes in assets and liabilities:			
Accounts receivable	( 8,522,460)	854,552	286,638
Prepaid expenses and other current assets	267,464	( 405,116 )	( 11,443 )
Accounts payable and accrued expenses	262,684	( 10,064 )	( 3,807 )
Accrued payroll	1,606,791	( 151,348 )	36,325
Billings in excess of costs and estimated earnings		( 148,229 )	( 157,509 )
Taxes other than income taxes	227,113	( 18,938 )	1,827
Income taxes payable	1,482,751 -----	-----	-----
	( 4,284,977) -----	251,254 -----	250,172 -----
Net cash provided by (used in) operating activities	( 1,917,038) -----	1,100,359 -----	1,676,177 -----

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

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**  
**Years Ended October 31, 1996, 1995 and 1994**

	1996 ----	1995 ----	1994 ----
Cash flows from investing activities:			
Property and equipment acquired	( 128,264 )	( 68,189 )	( 20,619 )
Increase in deposits	( 44,965 )	( 6,643 )	( 557 )
Cash paid for acquisitions, net of cash acquired	( 1,049,433 )	( 2,345,966 )	-----
 Net cash used in investing activities	 ( 1,222,662 )	 ( 2,420,798 )	 ( 21,176 )
 Cash flows from financing activities:			
Net borrowing (repayments) under short term debt arrangements	1,832,201	176,278	( 4,703 )
Repayments of long term debt		( 1,092,362 )	( 35,228 )
Sale of common stock	1,000,000		
Exercise of stock options	15,938		5,468
	-----		-----
 Net cash provided by (used in) financing activities	 2,848,139	 ( 916,084 )	 ( 34,463 )
 Net increase (decrease) in cash and cash equivalents	 ( 291,561 )	 ( 2,236,523 )	 1,620,538
 Cash and cash equivalents at beginning of year	 297,550	 2,534,073	 913,535
	-----	-----	-----
 Cash and cash equivalents at end of year	 \$ 5,989	 \$ 297,550	 \$2,534,073
	=====	=====	=====
 Supplemental cash flow information:			
Cash paid for:			
Interest expense	\$ 163,811	\$ 36,738	\$ 34,196
Income taxes	\$ 726,332	\$ 220,498	\$ 123,049
 Acquisitions:			
Fair value of assets acquired	\$7,302,476	\$5,218,694	
Liabilities assumed	6,253,043	2,872,728	
	-----	-----	
 Cash paid, net of cash acquired	 \$1,049,433	 \$2,345,966	
	=====	=====	

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

# RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS October 31, 1996, 1995 and 1994

### 1. Summary of Significant Accounting Policies

#### **Business**

RCM Technologies, Inc. (the "Company"), through its wholly-owned subsidiaries, is a nationwide provider of temporary and contract personnel to businesses, professional and service organizations, manufacturers and public utilities. The Company principally focuses its staffing services in the Professional Engineering and Technical, Information Technology, Health Care and General Staff Support sectors.

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

#### **Property and Equipment**

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

#### **Income Taxes**

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

#### **Revenue Recognition**

Revenue is recognized concurrently with the performance of services. When the Company enters into long-term contracts for the supply of temporary personnel, billings are rendered for employee hours worked according to contractual billing rates. Billings in excess of costs and estimated earnings on cost plus fixed fee contracts represents billings in excess of revenue recognized. Labor and overhead costs, and earnings on contracts with government contractors are subject to audit by the primary contractor or a division of the United States government.

#### **Profit Sharing Plan**

The Company sponsors a defined contribution plan (401-K Plan). Participation in the plan is available to all eligible employees as defined in the plan. Company contributions to the plan are based on a percentage of the employee's contributions to the plan subject to management's election to make a contribution. There were no contributions charged to operations by the Company for fiscal years ended October 31, 1996, 1995 and 1994.

#### **Cash Equivalents**

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

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1996, 1995 and 1994**

1. Summary of Significant Accounting Policies - (Continued)

**Earnings per Share**

Earnings per share of common stock are based on the weighted average number of shares of common stock and dilutive common share equivalents (which arise from stock options) outstanding during the years. No further dilution resulted from a computation of fully diluted earnings per share. The number of shares used to compute earnings per share was 4,320,571; 3,007,969 and 2,930,276 for the years ended October 31, 1996, 1995, and 1994, respectively.

**Use of Estimates**

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Intangible Assets**

Intangible assets primarily consist of goodwill associated with the acquired businesses. Goodwill is amortized on a straight-line basis over 40 years. The carrying value of goodwill is reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of the goodwill is reduced by the estimated shortfall of cash flows.

Other intangible assets consist primarily of non-compete agreements, which are amortized over the term of the respective agreements. Amortization expense for fiscal years 1996, 1995 and 1994 was \$211,337; \$48,928 and \$4,136, respectively.

**Fair Value of Financial Instruments**

The carrying value of financial instruments approximates fair value. The Company's financial instruments are accounts receivable, accounts payable and long-term debt. The Company does not have any off-balance sheet financial instruments or derivatives.

**New Standards**

In October 1995, the Financial Accounting Standards Board issued Statement No. 123, Accounting for Stock- Based Compensation, which is effective beginning in 1996. This statement encourages the fair value based method of accounting for stock options and similar equity instruments granted to employees. This method requires that the fair value of equity instruments granted to employees be recorded as compensation expense. However, the statement allows companies to continue to use the intrinsic value based method which, in most cases, does not result in a charge to earnings. The Company will not adopt the fair value based method of accounting for stock options. However, if the fair value based method of accounting were applied to grants of stock options in 1996, the effect would not be material.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("Statement 121"), which requires companies to review long-lived assets and certain identifiable intangibles to be held, used or disposed of, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company has adopted Statement 121, which had no significant effect on the financial statements.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1996, 1995 and 1994**

2. Stock Split

In April 1996, the Board of Directors, with stockholder approval, amended the Company's Articles of Incorporation to effect a one-for-five reverse split of common stock whereby each five shares of issued and outstanding common stock were exchanged for one share of common stock. The amendment had no effect on the number of authorized shares and the par value of the common stock.

All references in the financial statements to weighted average number of shares outstanding, earnings per share amounts and stock option data have been restated to reflect the reverse split.

3. Sale of Common Stock

On February 5, 1996, the Company issued and sold 276,625 shares of common stock to Limeport Investments, LLC in a Private Placement transaction for \$1,000,000 (\$3.615 per share). The purchase price was based on a twenty percent discount to the twenty day average closing price prior to the purchase of the shares. The shares are restricted securities; however, the Company has agreed to register such shares by filing a shelf registration statement by February 15, 1997. The President of the Company, Leon Kopyt, has been granted certain voting rights over these shares as long as they remain owned by Limeport Investments, LLC.

4. Acquisitions

During the three year period ended October 31, 1996, the Company acquired five businesses in the staffing services industry. These acquisitions, which are described below, have been accounted for as purchases and, accordingly, the results of operations of the acquired companies have been included in the consolidated results of operations of the Company from the dates of acquisition.

On March 11, 1996, the Company acquired all of the outstanding shares of The Consortium, a specialty provider of information technology and health care personnel servicing private sector and government clients in the greater metropolitan New York region.

The consideration paid to the former shareholders of The Consortium consisted of 1.3 million restricted shares of the Company's common stock, valued at \$5,000,000, in exchange for all of the outstanding capital stock of The Consortium. The Company has agreed to file a shelf registration statement by February 15, 1997, permitting the sale of \$600,000 in value of securities during the period April 1997 through March 1998. Thereafter, the remainder of these shares are subject to significant restrictions on resale through March 11, 1999. The cost in excess of net assets acquired of \$4,940,700 is included in the Company's Consolidated Balance Sheet as "Intangible Assets" and is being amortized over a 40 year period.

On May 1, 1996, the Company acquired The Consortium of Maryland, Inc. ("Consort MD"), a specialty provider of information technology personnel services to major U.S. Corporations in the greater metropolitan Washington, D.C. region. Consort MD was not related or affiliated with The Consortium. The acquisition was completed through a merger transaction (the "Merger") pursuant to which Consort MD was merged with and into a newly- created subsidiary of the Company, which then concurrently changed its name to "The Consortium of Maryland, Inc."

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1996, 1995 and 1994**

4. Acquisitions - (Continued)

The Merger consideration paid to the former shareholder of Consort MD at the closing consisted of \$621,500 cash and 34,327 restricted shares of the Company's common stock valued at \$377,597. Additional merger consideration, consisting of additional shares of stock having value equal to tangible net worth of Consort MD as of the Merger date, will be paid in the amount of approximately \$250,000 to the former shareholder of Consort MD. The Company has agreed to file a registration statement by May 1, 1998 permitting the sale of the restricted shares.

On September 13, 1996, the Company acquired all the assets and assumed all of the liabilities of Performance Staffing, Inc. ("PSI"). The consideration paid to the former shareholders of PSI consisted of 2,500 shares of restricted shares of the Company's common stock valued at \$21,000. There is contingent consideration of \$10,000, which is payable upon the collection of not less than 93% of all of the outstanding accounts receivables billed by PSI prior to acquisition by the Company.

On December 15, 1994, the Company purchased certain operating assets of Great Lakes Design, Inc. for \$200,000 in the form of a \$150,000 note payable and \$50,000 in cash. In addition, the Company will share with the seller a portion of the operating income of the Great Lakes Design operating unit for a period of five years after acquisition. Costs in excess of assets acquired of \$52,800 are being amortized over a period of forty years. A non-compete covenant of \$107,100 is being amortized over a five year period. The note payable is uncollateralized, bears interest at 8% per annum and is payable in quarterly installments of \$20,490, including interest, with a final maturity date of December 1, 1996.

On August 30, 1995, the Company acquired Cataract, Inc., a supplier of management, engineering, design and technical services to the nuclear power, fossil fuel, electric utilities and process industries. The acquisition was completed through a merger transaction pursuant to which Cataract, Inc. was merged with and into a newly-created subsidiary of the Company, which then concurrently changed its name to "Cataract, Inc."

The consideration payable to the former shareholders of Cataract, Inc. consisted of \$2,000,000 cash and 312,311 restricted shares of the Registrant's common stock (the "Shares"), valued at \$1,200,000. The cost in excess of net assets acquired was \$3,385,966. The cost in excess of net assets acquired is being amortized over a 40 year period. The shares issued to the former Cataract, Inc. shareholders have been pledged to the Company for a period of three years to secure the performance of certain conditions subsequent to the merger relating to the achievement of certain levels of sales revenues that have been warranted by the former Cataract, Inc. shareholders.

Following the expiration of the pledge period, the Shares are to be placed in a voting trust until the earlier of: (i) the public or private sale of such Shares in open market transactions to unaffiliated third parties; or (ii) the resignation or removal from office of Leon Kopyt, currently Chief Executive Officer and President of the Registrant. Notwithstanding the above, one-third of the Shares shall be released from trust commencing upon the fifth anniversary of the closing, and thereafter an additional one-third of the Shares shall be released from trust upon each of the sixth and seventh annual anniversaries of the closing date.

During the period in which the Shares are subject to pledge and the voting trust, the Shares are to be voted by the Registrant's Board of Directors on behalf of the former shareholders of Cataract, Inc.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1996, 1995 and 1994**

4. Acquisitions - (Continued)

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

	Year Ended October 31,	
	1996	1995
	----	----
Revenues	\$75,075,000	\$77,883,000
Net income	\$ 2,764,000	\$ 2,059,000
Income per common share	\$.57	\$.45

5. Property and Equipment

Property and equipment is comprised of the following:

	October 31,	
	1996	1995
	----	----
Office equipment	\$1,453,711	\$1,017,197
Capitalized lease	174,873	174,873
Leasehold improvements	16,247	16,247
	-----	-----
	1,644,831	1,208,317
Less: accumulated depreciation and amortization	1,142,740	763,966
	-----	-----
	\$ 502,091	\$ 444,351
	=====	=====

6. Note Payable - Bank

The note payable is the outstanding amount pursuant to a bank revolving line of credit agreement expiring in 1998. Borrowing under the credit facility is based on 85% of accounts receivable on which not more than ninety days have elapsed since the date of invoicing. The credit facility is collateralized by accounts receivable, contract rights and furniture and fixtures with unlimited guarantees from the Company. The credit facility requires the subsidiaries and the Company to meet certain objectives with respect to financial ratios and earnings. The interest rate charged by the bank at October 31, 1996 and 1995 was at the prime rate (effective rate of 8.25% and 8.75%, respectively). At October 31, 1996, there was \$6,991,000 available under the credit facility.

On December 19, 1996, the Company and its subsidiaries entered into an amended and restated agreement with Mellon Bank, N.A. for providing a credit facility in the maximum amount of \$20,000,000, increased from \$10,000,000 at October 31, 1996. The agreement expires on June 30, 1999. The interest rate charged by the bank, under the amended and restated agreement will be based on the London Interbank Offered Rate ("LIBOR") plus 2.25%.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1996, 1995 and 1994**

7. Shareholder Rights Plan

On March 14, 1996, the Board of Directors of the Company declared a dividend of one Common Share Purchase Right ("Right") for each outstanding share of common stock of the Company. Each Right entitles stockholders to buy one share of common stock at an exercise price of \$3.00. The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 15% or more of the common stock. The Company will be entitled to redeem the Rights at one cent per Right at any time before a 15% or greater position has been acquired.

The dividend distribution was made on April 1, 1996, to shareholders of record at the close of the business on that date. The Rights expire April 1, 2006.

8. Shareholders' Equity

Common shares reserved

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

	October 31, 1996	1995
Exercise of warrants	157,342	157,342
Exercise of options outstanding	214,400	163,300
Future grants of options	760,300	74,100
	-----	-----
Total	1,132,042 =====	394,742 =====

**Warrants**

At October 31, 1996 and 1995, the Company had 786,709 warrants outstanding to purchase 157,342 shares of the Company's common stock. As a result of the reverse stock split (see note 2) each warrant continues to have an exercise price of \$3.00 per share, but five warrants are needed to convert to one share of common stock. The warrants expire on April 1, 1997 unless otherwise extended by the Board of Directors.

**Incentive Stock Option Plans**

On February 27, 1986, the shareholders approved the RCM Technologies, Inc. 1986 Incentive Stock Option Plan ("1986 Plan") which authorizes the issuance not later than October 30, 1995 of up to 60,000 shares of Common Stock to officers, directors and key employees of the Company and its subsidiaries.

On April 23, 1992, the shareholders approved the RCM Technologies, Inc. 1992 Incentive Stock Option Plan ("1992 Plan") which authorizes the issuance not later than February 13, 2002 of up to 100,000 shares of Common Stock to officers, directors and key employees of the Company and its subsidiaries. The 1986 and 1992 Plans contain substantially the same terms. Options under all plans are intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code. The option terms for all plans cannot exceed ten years and the exercise price cannot be less than 100% of the fair market value of the shares at the time of grant.

On May 19, 1994, the shareholders approved the RCM Technologies, Inc. 1994 Nonemployee Directors Stock Option Plan ("1994 Plan") as a means of recruiting and retaining nonemployee directors of the Company. There are 80,000 shares of Common Stock reserved under the plan for issuance no later than July 19, 2004. All director stock options are granted at fair market value at the date of grant. The exercise of options granted is contingent upon service as a director for a period of one year. If the optionee ceases to be a director of the Company, any option granted shall terminate.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1996, 1995 and 1994**

8. Shareholders' Equity - (Continued)

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

On August 15, 1996, the Board of Directors approved the RCM Technologies, Inc. 1996 Executive Stock Plan ("1996 Plan") which authorizes the issuance not later than August 15, 2006 of up to 750,000 shares of Common Stock to officers and key employees of the Company and its subsidiaries. Effective November 21, 1996, the Chief Executive Officer, Mr. Kopyt, was granted 500,000 options pursuant to the 1996 Plan.

Transactions related to all stock options are as follows:

	1996	1995	1994
	----	----	----
Outstanding options at beginning of year	163,300	173,300	106,000
Granted	61,100	50,300	80,000
Forfeited		( 60,300)	( 7,700 )
Exercised	( 10,000)		( 5,000 )
	-----	-----	-----
Outstanding options at end of year	214,400	163,300	173,300
	=====	=====	=====
Exercisable options at October 31,	141,300	87,000	93,300
====	=====	=====	=====
Option grant price per share	\$1.09	\$1.09	\$1.09
	to \$8.13	to \$19.84	to \$19.84

9. Commitments

**Employment Contract and Termination Benefits Agreement**

The Company has employment agreements with its President and certain senior executives with a latest expiration date of February 28, 1999. The agreement with the President provides for a bonus based on pre-tax earnings. No maximum compensation limit exists. The aggregate commitment for future salaries at October 31, 1996, excluding bonuses, was \$1,660,000. In addition, an option plan is available for all employees to receive stock options resulting from recommendations by the Compensation Committee of the Board of Directors.

The Company has a termination benefits agreement with the President which grants him the right to receive up to 2.99 times the average aggregate annual compensation as reported for federal income tax purposes for the past five years plus continuation of certain benefits, and provides for the surrender of stock options in exchange for the payment by the Company of the difference between the option price and the share price on the date of change of control (as defined) within a period of five years thereafter or termination (as defined), which ever is higher. The maximum contingent liability for salary and incentive compensation is approximately \$1,452,000.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1996, 1995 and 1994**

9. Commitments - (Continued)

Operating leases

The Company leases office facilities and various equipment under noncancellable leases expiring at various dates through October 29, 2006. Certain leases are subject to escalation clauses based upon changes in various factors. The minimum future annual operating lease commitments for leases with noncancellable terms in excess of one year, exclusive of escalation, are as follows:

Year ending October 31,	Amount
1997	\$583,800
1998	420,100
1999	264,300
2000	213,900
2001	188,400
Thereafter	1,023,000
	-----
Total	\$2,693,500
	=====

Rent expense for the years ended October 31, 1996, 1995 and 1994 was \$498,042, \$354,267, and \$336,662, respectively.

10. Major Customers

Sales to major clients for the years ended October 31, 1996, 1995 and 1994 were as follows:

For the year ended October 31, 1996, one client contributed \$7,776,000 or 12.7% of total sales. Accounts receivable from the client represented 13.3% of the total trade accounts receivable at October 31, 1996.

For the year ended October 31, 1995, three clients contributed \$3,300,000, \$2,061,000 and \$1,347,000, respectively (an aggregate of \$6,708,000 or 24.9% of total sales). Accounts receivable from these three clients represented 8.1% of the total trade accounts receivable at October 31, 1995.

For the year ended October 31, 1994, three clients contributed \$7,811,000, \$2,950,000 and \$2,095,000, respectively (an aggregate of \$12,856,000 or 44.0% of total sales).

11. Related Party Transactions

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

12. Income Taxes The components of income tax expense are as follows:

	Year ended October 31,		
	1996	1995	1994
	----	----	----
Current			
Federal	\$ 48,000	\$ 10,000	\$ 27,000
State and local	405,539	83,500	160,043
	-----	-----	-----
Total income tax expense - current	\$453,539	\$ 93,500	\$187,043
	=====	=====	=====

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1996, 1995 and 1994**

12. Income Taxes - (Continued)

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

	1996 ----	1995 ----	1994 ----
Tax at statutory rate	34.0%	34.0%	34.0 %
State income taxes, net of Federal income tax benefit	9.4	5.8	6.5
Provision for doubtful accounts	.3		.1
Net operating loss carry-overs	( 32.4)	( 32.3)	( 31.3 )
Other, net	4.8	2.4	2.3
	---	---	---
	16.1%	9.9%	11.6 %
	====	===	====

At October 31, 1996, the net operating loss carry-overs available to offset regular taxable income and tax credit carry-overs available to offset regular or alternative minimum federal taxes are as follows:

Expiration Date ----	Net Operating Loss -----	Tax Credits -----
1997-2004	\$	\$53,100
2005		20,000
2007	300,000	
----	-----	
Total	\$ 300,000	\$73,100
	=====	=====

Should there be a change in control as defined in the Internal Revenue Code, utilization of such losses could be limited. Net operating losses for alternative minimum tax purposes at October 31, 1996 are approximately \$270,000.

Significant components of the Company's deferred tax assets at October 31, 1996 and 1995 are as follows:

	1996 ----	1995 ----
Deferred tax assets due to:		
Net operating loss carry-over	\$102,000	\$1,019,800
Tax credit carry-over	73,100	73,100
Depreciation of property and equipment	20,000	23,200
Other		46,887
	-----	-----
	195,100	1,162,987
Less: 100% valuation allowance	195,100	1,162,987
	-----	-----
Total net deferred tax assets	\$	\$
	=====	=====

The valuation allowance was decreased during 1996 and 1995 by \$967,887 and \$316,286, respectively, due to the utilization of net operating loss carry-overs and the reversal of temporary differences.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1996, 1995 and 1994**

13. Selected Quarterly Financial Information (Unaudited)

**Year Ended October 31, 1996**

	Sales -----	Profit -----	Net Income -----	Per Share * -----
1st Quarter	\$ 9,776,507	\$ 1,790,629	\$ 501,863	\$.15
2nd Quarter	13,785,626	2,473,426	386,736	.09
3rd Quarter	17,378,155	3,798,231	684,937	.14
4th Quarter	20,098,885	4,197,002	794,403	.16
-	-----	-----	-----	---
Total	\$61,039,173 =====	\$12,259,288 =====	\$2,367,939 =====	\$.55 =====

**Year Ended October 31, 1995**

	Sales -----	Gross Profit -----	Net Income -----	Net Income Per Share * -----
1st Quarter	\$ 6,692,756	\$1,150,362	\$229,015	\$.08
2nd Quarter	6,280,172	1,155,413	277,724	.05
3rd Quarter	5,015,376	894,096	69,716	.02
4th Quarter	8,927,433	1,337,049	272,650	.08
-	-----	-----	-----	---
Total	\$26,915,737 =====	\$4,536,920 =====	\$849,105 =====	\$.28 =====

\* Per share data is adjusted to reflect the one for five reverse stock split (note 2). Total of quarterly amounts do not agree to the annual amount due to separate quarterly calculations of weighted average shares outstanding.

14. Other Income (Expense)

Included in Other Income (Expense) is Interest Income in the amount of \$116; \$142,810 and \$57,810, respectively for years ended October 31, 1996, 1995 and 1994.

15. Self-Funded Group Medical Insurance

Cataract, Inc. provides group medical insurance to its employees on a self-funded basis up to \$30,000 per insured individual to an annual aggregate limitation of \$242,000. Amounts in excess of these thresholds are covered by insurance. Management believes that adequate reserves have been recorded to cover claims incurred but not reported as of October 31, 1996.

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1995, 1994 and 1993**

16. Contingency

During the third quarter, the Company received a request for contribution in an unspecified amount from the purchaser of a property in 1977 on which the Company had previously conducted the storage and handling of certain aluminum recovery materials. The purchaser has suggested that, based upon an order by the California Regional Water Quality Control Board, the Company's handling and storage of certain materials on the site prior to and after the sale may have contributed to environmental contamination of the ground water on and around the site. Any such contamination was discovered years after the sale.

Based upon the results of a preliminary examination of the matter, which includes an environmental survey of the property conducted prior to the time of the sale, the Company believes that the site in question complied with all environmental rules and regulations at the time of the sale and that any contamination was likely caused by the operation of the purchaser thereafter.

The Company continues to examine this matter. Until full evaluation is completed, any possible significance of this matter cannot be determined.

17. Subsequent Event (Unaudited)

On January 7, 1997 the Company purchased Programming Alternatives of Minnesota, Inc. ("PAMI"), a privately-held, specialty provider of information technology consultants, particularly those with high demand client-server skills. The purchase price was \$4,500,000 plus \$1,625,000 of contingent consideration in the form of a three year promissory note. The agreement provides for additional purchase price consideration upon the attainment of certain earnings targets at the end of each twelve month period following the closing, for a period of three years. Any additional consideration paid will be recorded as additional purchase price. Based upon current monthly revenue figures provided by management of PAMI, the revenues for the year ended December 31, 1996 are estimated to be approximately \$10 million.

**SCHEDULE I**

**RCM TECHNOLOGIES, INC. (PARENT COMPANY)  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
BALANCE SHEET  
October 31, 1996 and 1995**

**ASSETS**

	1996 ----	1995 ----
Current assets		
Cash	\$ 8,586	\$ 1,733
Prepaid expenses and other assets	132,663	134,937
	-----	-----
Total current assets	141,249	136,670
	-----	-----
Other assets		
Deposits	5,695	5,495
Long-term receivables from affiliates	16,073,166	8,188,366
	-----	-----
	16,078,861	8,193,861
	-----	-----
Total assets	\$16,220,110	\$8,330,531
	=====	=====
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Share in deficiency in assets of subsidiaries	-----	803,946
		-----
Shareholders' equity		
Common stock	243,924	813,756
Additional paid in capital	17,161,105	10,265,687
Accumulated deficit	( 1,122,098)	( 3,490,037 )
	-----	-----
	16,282,931	7,589,406
Less: treasury stock	62,821	62,821
	-----	-----
Total shareholders' equity	16,220,110	7,526,585
	-----	-----
Total liabilities and shareholders' equity	\$16,220,110	\$8,330,531
	=====	=====

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

**SCHEDULE I**

**RCM TECHNOLOGIES, INC. (PARENT COMPANY)  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
STATEMENT OF OPERATIONS  
Years Ended October 31, 1996, 1995 and 1994**

	1996 ----	1995 ----	1994 ----
Operating expenses			
Administrative	\$ 139,280 -----	\$ 31,780 -----	\$ 116,418 -----
Operating loss	( 139,280 ) -----	( 31,780 ) -----	( 116,418 ) -----
Miscellaneous expense	( 10,261 ) -----	( 3,678 ) -----	( 7,299 ) -----
	( 10,261 ) -----	( 3,678 ) -----	( 7,299 ) -----
Loss before management fee income	( 149,541 )	( 35,458 )	( 123,717 )
Management fee income	149,541 -----	35,458 -----	123,820 -----
Income before income taxes			103
Income taxes			103 ---
Income before income in subsidiaries			
Equity in earnings in subsidiaries	2,367,939 -----	849,105 -----	1,426,005 -----
Net income	\$2,367,939 =====	\$ 849,105 =====	\$1,426,005 =====

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

**SCHEDULE I**

**RCM TECHNOLOGIES, INC. (PARENT COMPANY)  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
STATEMENT OF CASH FLOWS  
Years Ended October 31, 1996, 1995 and 1994**

	1996 ----	1995 ----	1994 ----
Cash flows from operating activities:			
Net income	\$2,367,939 -----	\$ 849,105 -----	\$1,426,005 -----
Adjustments to reconcile net income to net cash provided by operating activities:			
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	2,274	( 2,625 )	530
Accounts payable and accrued expenses		( 11,108 )	( 4,681 )
Income taxes payable			( 1,800 )
	2,274	( 13,733 )	( 5,951 )
	-----	-----	-----
Net cash provided by operating activities	2,370,213 -----	835,372 -----	1,420,054 -----
Cash flows from investing activities:			
Increase in deposits			( 95 )
Share in deficiency in assets of subsidiaries	( 2,367,939 )	( 849,105 )	( 1,426,005 )
Decrease (increase) in long-term receivables from subsidiaries	( 1,025,065 )	8,042	399
	-----	-----	---
Net cash used in investing activities	( 3,393,004 ) -----	( 841,063 ) -----	( 1,425,701 ) -----
Cash flows from financing activities:			
Sale of common stock	1,000,000		
Exercise of stock options	15,938		5,468
	-----		-----
Net cash provided by financing activities	1,015,938 -----		5,468 -----
Net decrease in cash and equivalents	( 6,853 )	( 5,691 )	( 179 )
Cash and equivalents at beginning of year	1,733 -----	7,424 -----	7,603 -----
Cash and equivalents at end of year	\$ 8,586 =====	\$ 1,733 =====	\$ 7,424 =====

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

**SCHEDULE II**

**RCM TECHNOLOGIES, INC. AND SUBSIDIARIES  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
Years Ended October 31, 1996, 1995 and 1994**

Column A -----	Column B -----	Column C -----		Column D -----	Column E -----
Description -----	Balance at Beginning of Period -----	Charged to Costs and Expenses -----	Charged to Other Accounts -----	Deduction -----	Balance at End of Period -----
Year Ended October 31, 1996 -----					
Allowance for doubtful accounts on trade receivables	\$ 15,000	\$ 15,320		\$ 76,320	\$ 76,000
Year Ended October 31, 1995 -----					
Allowance for doubtful accounts on trade receivables	\$ 15,000	\$ 40,310		\$ 40,310	\$ 15,000
Year Ended October 31, 1994 -----					
Allowance for doubtful accounts on trade receivables	\$ 10,000	\$ 92,707		\$ 97,707	\$ 15,000

**EXHIBIT 21**

**SUBSIDIARIES**

Intertec Design, Inc.

Cataract, Inc.

The Consortium

The Consortium of Maryland, Inc.

Programming Alternatives of Minnesota, Inc.

## Consent of Independent Certified Public Accountants

Board of Directors  
RCM Technologies, Inc.

We have issued our report dated December 16, 1996 accompanying the consolidated financial statements and schedules included in the Annual Report of RCM Technologies, Inc. and Subsidiaries on Form 10-K for the years ended October 31, 1996, 1995 and 1994. We hereby consent to the incorporation by reference of said report in the Prospectus constituting part of the Registration Statement on Forms S-8 (File No. 33-12405, effective March 24, 1987, File No. 33-12406, effective March 24, 1987, File No. 33-61306, effective April 21, 1993, and File No. 33-80590, effective June 22, 1994).

*/s/ Grant Thornton LLP  
Grant Thornton LLP  
Philadelphia, Pennsylvania  
December 16, 1996*

**ARTICLE 5**

I THIS SCHEDULE SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS FOR THE YEAR ENDED OCTOBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH STATEMENTS.

CIK: 0000700841

NAME: RCM TECHNOLOGIES, INC.

MULTIPLIER: 1

CURRENCY: U.S. DOLLARS

PERIOD TYPE	12 MOS
FISCAL YEAR END	OCT 31 1996
PERIOD START	NOV 01 1995
PERIOD END	OCT 31 1996
EXCHANGE RATE	1.00
CASH	5,989
SECURITIES	0
RECEIVABLES	14,061,445
ALLOWANCES	76,000
INVENTORY	0
CURRENT ASSETS	14,395,632
PP&E	1,644,831
DEPRECIATION	1,142,740
TOTAL ASSETS	24,406,620
CURRENT LIABILITIES	7,624,198
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	243,924
OTHER SE	15,976,186
TOTAL LIABILITY AND EQUITY	24,406,620
SALES	61,039,173
TOTAL REVENUES	61,039,173
CGS	48,779,886
TOTAL COSTS	58,023,668
OTHER EXPENSES	30,216
LOSS PROVISION	0
INTEREST EXPENSE	163,811
INCOME PRETAX	2,821,478
INCOME TAX	453,539
INCOME CONTINUING	2,367,939
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	2,367,939
EPS PRIMARY	.55
EPS DILUTED	.55

---

**End of Filing**

Powered By **EDGAR**  
Online

© 2005 | EDGAR Online, Inc.