

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended November 30, 2005

OR

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

For the transition period from _____ to _____

Commission File Number: 0-32113

RESOURCES CONNECTION, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

33-0832424
(I.R.S. Employer
Identification No.)

695 TOWN CENTER DRIVE, SUITE 600, COSTA MESA, CALIFORNIA 92626

(Address of Principal Executive Offices and Zip Code)

(714) 430-6400

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

As of December 30, 2005, 48,175,773 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

RESOURCES CONNECTION, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RESOURCES CONNECTION, INC.

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	November 30, 2005	May 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 65,061,000	\$ 38,741,000
Short-term investments	39,000,000	54,000,000
Trade accounts receivable, net of allowance for doubtful accounts of \$5,382,000 and \$5,268,000 as of November 30, 2005 and May 31, 2005, respectively	87,652,000	80,848,000
Prepaid expenses and other current assets	3,643,000	3,555,000
Deferred income taxes	5,446,000	5,446,000
Total current assets	200,802,000	182,590,000
Long-term investments	49,000,000	42,000,000
Goodwill	79,988,000	80,013,000
Intangible assets, net	2,751,000	3,621,000
Property and equipment, net	20,265,000	8,827,000
Other assets	1,631,000	2,711,000
Total assets	\$354,437,000	\$319,762,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 15,634,000	\$ 18,725,000
Accrued salaries and related obligations	41,098,000	41,752,000
Income taxes payable and other liabilities	3,162,000	2,821,000
Total current liabilities	59,894,000	63,298,000
Deferred income taxes	8,088,000	8,097,000
Total liabilities	67,982,000	71,395,000
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized; zero shares issued and outstanding		
Common stock, \$0.01 par value, 140,000,000 shares authorized; 48,705,000 and 47,968,000 shares issued; and 48,141,000 and 47,404,000 outstanding as of November 30, 2005 and May 31, 2005, respectively	487,000	479,000
Additional paid-in capital	134,224,000	125,271,000
Deferred stock compensation	(539,000)	—
Accumulated other comprehensive gain (loss)	(786,000)	632,000
Retained earnings	158,350,000	127,266,000
Treasury stock at cost, 564,000 shares at both November 30, 2005 and May 31, 2005	(5,281,000)	(5,281,000)
Total stockholders' equity	286,455,000	248,367,000
Total liabilities and stockholders' equity	\$354,437,000	\$319,762,000

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

RESOURCES CONNECTION, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended		Six Months Ended	
	November 30, 2005	November 30, 2004	November 30, 2005	November 30, 2004
Revenue	\$ 158,138,000	\$ 137,027,000	\$ 307,726,000	\$ 252,428,000
Direct cost of services, primarily payroll and related taxes for professional services employees	95,171,000	81,851,000	185,821,000	151,785,000
Gross profit	62,967,000	55,176,000	121,905,000	100,643,000
Selling, general and administrative expenses	36,826,000	28,170,000	70,918,000	53,351,000
Amortization of intangible assets	435,000	411,000	870,000	822,000
Depreciation expense	545,000	567,000	1,037,000	1,110,000
Income from operations	25,161,000	26,028,000	49,080,000	45,360,000
Interest income	1,114,000	411,000	2,086,000	715,000
Income before provision for income taxes	26,275,000	26,439,000	51,166,000	46,075,000
Provision for income taxes	10,250,000	10,840,000	20,082,000	18,891,000
Net income	<u>\$ 16,025,000</u>	<u>\$ 15,599,000</u>	<u>\$ 31,084,000</u>	<u>\$ 27,184,000</u>
Net income per common share:				
Basic	\$ 0.33	\$ 0.33	\$ 0.65	\$ 0.58
Diluted	<u>\$ 0.31</u>	<u>\$ 0.31</u>	<u>\$ 0.60</u>	<u>\$ 0.54</u>
Weighted average common shares outstanding:				
Basic	48,084,000	46,878,000	47,892,000	46,714,000
Diluted	<u>52,034,000</u>	<u>50,218,000</u>	<u>51,722,000</u>	<u>50,088,000</u>

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

RESOURCES CONNECTION, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

Six Months Ended
November 30, 2005

COMMON STOCK—SHARES:	
Balance at beginning of period	47,968,000
Exercise of stock options	644,000
Issuance of common stock under Employee Stock Purchase Plan	68,000
Issuance of restricted stock	25,000
	<hr/>
Balance at end of period	48,705,000
	<hr/>
COMMON STOCK—PAR VALUE:	
Balance at beginning of period	\$ 479,000
Exercise of stock options	7,000
Issuance of common stock under Employee Stock Purchase Plan	1,000
Issuance of restricted stock	—
	<hr/>
Balance at end of period	\$ 487,000
	<hr/>
ADDITIONAL PAID-IN CAPITAL:	
Balance at beginning of period	\$ 125,271,000
Exercise of stock options	7,005,000
Issuance of common stock under Employee Stock Purchase Plan	1,349,000
Issuance of restricted stock	599,000
	<hr/>
Balance at end of period	\$ 134,224,000
	<hr/>
DEFERRED STOCK COMPENSATION:	
Balance at beginning of period	\$ —
Issuance of restricted stock	(599,000)
Amortization of deferred stock compensation	60,000
	<hr/>
Balance at end of period	\$ (539,000)
	<hr/>
ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS):	
Balance at beginning of period	\$ 632,000
Translation adjustments	(1,418,000)
	<hr/>
Balance at end of period	\$ (786,000)
	<hr/>
RETAINED EARNINGS:	
Balance at beginning of period	\$ 127,266,000
Net income	31,084,000
	<hr/>
Balance at end of period	\$ 158,350,000
	<hr/>
TREASURY STOCK—SHARES:	
Balance at beginning of period	(564,000)
Repurchase of shares	—
	<hr/>
Balance at end of period	(564,000)
	<hr/>
TREASURY STOCK—COST:	
Balance at beginning of period	\$ (5,281,000)
Repurchase of shares	—
	<hr/>
Balance at end of period	\$ (5,281,000)
	<hr/>
COMPREHENSIVE INCOME:	
Net income	\$ 31,084,000
Translation adjustments	(1,418,000)
	<hr/>
Total comprehensive income	\$ 29,666,000
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The accompanying notes are an integral part of these financial statements.

RESOURCES CONNECTION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	November 30, 2005	November 30, 2004
Cash flows from operating activities:		
Net income	\$ 31,084,000	\$ 27,184,000
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	1,907,000	1,932,000
Amortization of deferred stock compensation	60,000	124,000
Bad debt expense	684,000	1,854,000
Changes in operating assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	(9,061,000)	(13,664,000)
Prepaid expenses and other current assets	(225,000)	1,903,000
Income taxes	782,000	5,071,000
Other assets	977,000	(897,000)
Accounts payable and accrued expenses	(2,661,000)	943,000
Accrued salaries and related obligations	195,000	3,990,000
Other liabilities	410,000	(43,000)
Net cash provided by operating activities	24,152,000	28,397,000
Cash flows from investing activities:		
Redemption of long-term investments	11,000,000	10,000,000
Purchase of long-term investments	(30,000,000)	(31,000,000)
Redemption of short-term investments	57,000,000	14,000,000
Purchase of short-term investments	(30,000,000)	(19,500,000)
Purchase of Nordic Spring, net of cash acquired and including transaction costs	—	(1,923,000)
Purchases of property and equipment	(12,598,000)	(1,643,000)
Net cash used in investing activities	(4,598,000)	(30,066,000)
Cash flows from financing activities:		
Proceeds from exercise of stock options	7,012,000	3,981,000
Proceeds from issuance of common stock under Employee Stock Purchase Plan	1,350,000	809,000
Net cash provided by financing activities	8,362,000	4,790,000
Effect of exchange rate changes on cash	(1,596,000)	713,000
Net increase in cash and cash equivalents	26,320,000	3,834,000
Cash and cash equivalents at beginning of period	38,741,000	20,626,000
Cash and cash equivalents at end of period	\$ 65,061,000	\$ 24,460,000

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

ITEM 1. (CONTINUED)

RESOURCES CONNECTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Six months ended November 30, 2005 and 2004

1. Description of the Company and its Business

Resources Connection, Inc. ("Resources Connection") was incorporated on November 16, 1998. Resources Connection announced on January 10, 2005 that it was changing the name of its operating entities to Resources Global Professionals ("Resources Global") to better reflect Resources Connection's global capabilities. Resources Global provides professional services to a variety of industries and enterprises through its subsidiaries, Resources Connection LLC ("LLC"), RECN of Texas, LP ("Texas"), Resources Audit Solutions, LLC ("RAS"), and 15 foreign entities (collectively the "Company"). LLC, which commenced operations in June 1996, and Texas, which was formed in May 2002, and the various foreign operations, provide clients with experienced professionals who specialize in accounting, finance, information technology, human resources, supply chain management and legal services on a project basis. RAS commenced business formally in June 2002 and assists clients with internal audit and risk assessment needs on a project or co-sourced basis. The Company has offices in the United States, Australia, Belgium, Canada, Denmark, France, Japan, Luxembourg, the Netherlands, Norway, the People's Republic of China, Singapore, Sweden, Taiwan and the United Kingdom. Resources Connection is a Delaware corporation. LLC and RAS are Delaware limited liability companies. Texas is a limited partnership formed in Texas.

The Company's fiscal year consists of 52 or 53 weeks, ending on the last Saturday in May. The actual quarter end dates for the second quarter of fiscal 2006 and 2005, each consisting of 13 weeks, were November 26, 2005 and November 27, 2004, respectively. For convenience, all references herein to years or periods are to years or periods ended May 31 or November 30, respectively.

2. Summary of Significant Accounting Policies

Interim Financial Information

The financial information as of and for the three months and six months ended November 30, 2005 and 2004 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair statement of the financial position at such dates and the operating results and cash flows for those periods. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules or regulations; however, the Company believes the disclosures made are adequate to make the information presented not misleading.

The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for the fiscal year. These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended May 31, 2005, which are included in the Company's Annual Report on Form 10-K for the year then ended (File No. 0-32113).

Reclassifications

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current quarter presentation.

Revision in Classification of Certain Securities

In connection with the preparation of its report on Form 10-Q for the quarter ended August 31, 2005, the Company concluded that it was appropriate to classify its auction rate securities as of August 31, 2005 of \$40.0 million as current investments as their original maturities were greater than 90 days. Previously, such investments had been classified as cash and cash equivalents due to the fact that these instruments contain monthly interest rate reset features. Accordingly, we revised the classification in our Consolidated Balance Sheets as of May 31, 2005, to report these securities of \$27.0 million as current investments included in short-term investments consistent with the August 31, 2005 presentation. A corresponding adjustment has also been made to the Company's Consolidated Statements of Cash Flows for the six months ended November 30, 2004, to reflect the gross purchases of \$19.5 million and sales of \$14.0 million of these securities as investing activities rather than as a component of cash and cash equivalents. This change in classification does not affect previously reported cash flows from operating or financing activities in the Company's previously reported Consolidated Statements of Cash Flows, or the Company's previously reported Consolidated Statements of Income for any period.

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As of May 31, 2004, \$29.5 million of these current investments were classified as cash and cash equivalents on the Company's Consolidated Balance Sheet. The Company had no auction rate securities as of November 30, 2005.

For the fiscal years ended May 31, 2005 and 2004, gross cash flows from investing activities from the purchase and sale of these current investments were as follows:

	Year ended May 31,	
	2005	2004
Purchase of short-term investments	\$(61,500,000)	\$(32,000,000)
Redemption of short-term investments	64,000,000	2,500,000

There was no investment in such securities for the fiscal year ended May 31, 2003.

Short and Long-Term Investments

The Company accounts for its marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Accordingly, securities that the Company has the ability and positive intent to hold to maturity are carried at amortized cost. Cost approximates market for these securities.

At May 31, 2005, the Company held \$27.0 million of marketable securities consisting of auction rate securities, classified as available-for-sale and included in the caption "short-term investments" in the Consolidated Balance Sheet. The Company's investment in these securities was recorded at cost, which approximates fair market value due to their variable interest rates, which typically reset every month. These securities had stated contractual maturities in excess of one year; however, the Company had the ability to liquidate these securities and did not have any cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from these marketable securities. All income generated from these current investments was recorded as interest income. The Company held no auction rate securities as of November 30, 2005.

All held-to-maturity securities have remaining maturity dates greater than one year. To secure a slightly higher interest rate on its investment in government bonds, the \$49.0 million in investments classified as long-term as of November 30, 2005 are callable at the discretion of the issuer although their stated maturity dates are greater than one year from the balance sheet date.

Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". Under APB No. 25, the intrinsic value of the options is used to record compensation expense and if the grant price of the options is equal to the fair market value of the option at the date of grant, no compensation expense related to the stock options is included in determining net income and net income per share. SFAS No. 148, "Accounting for Stock Based Compensation Transition and Disclosure," requires more prominent and frequent disclosures about the effects of stock-based compensation, including the following pro forma information. See further discussion of new requirements for reporting stock-based compensation in Note 8—*Recent Accounting Pronouncements*.

If the Company had recognized compensation cost at the date of grant using the fair value method, our pro forma net income and pro forma net income per share would have been as follows:

	Three months ended		Six months ended	
	November 30, 2005	November 30, 2004	November 30, 2005	November 30, 2004
Net income, as reported	\$16,025,000	\$15,599,000	\$31,084,000	\$27,184,000
Stock-based employee compensation expense, net of related tax effects	18,000	—	36,000	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(4,624,000)	(1,715,000)	(5,053,000)	(4,324,000)
Pro forma net income	\$11,419,000	\$13,884,000	\$26,067,000	\$22,860,000
Net income per share:				
Basic-as reported	\$ 0.33	\$ 0.33	\$ 0.65	\$ 0.58
Basic-pro forma	\$ 0.24	\$ 0.30	\$ 0.54	\$ 0.49
Diluted-as reported	\$ 0.31	\$ 0.31	\$ 0.60	\$ 0.54
Diluted-pro forma	\$ 0.22	\$ 0.28	\$ 0.52	\$ 0.46

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The fair value of each option is estimated, as of the grant date, using the Black-Scholes option pricing model with the following weighted average assumptions for grants in fiscal 2006 and 2005: expected volatility of 50.0% and 50.0% for 2006 and 2005, respectively; risk-free interest rates of 3.8% to 4.3% and 3.4% to 4.1% for 2006 and 2005, respectively; and expected lives of 6.3 years and 5.0 years for 2006 and 2005, 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. Although management believes these estimates and assumptions are adequate, actual results could differ from the estimates and assumptions used.

3. Stockholders' Equity

On February 8, 2005, the board of directors approved a two-for-one split of our common stock. The stock split was payable in the form of a stock dividend and entitled each stockholder of record at the close of business on February 18, 2005 to receive one share of common stock for every outstanding share of common stock held on that date. The 100% stock dividend was distributed on March 1, 2005. Earnings per share for prior periods presented have been restated in the accompanying financial statements to reflect this split.

4. Net Income Per Share

The Company follows SFAS No. 128, "Earnings Per Share," which establishes standards for the computation, presentation and disclosure requirements for basic and diluted earnings per share for entities with publicly held common shares and potential common shares. Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding. In computing diluted earnings per share, the weighted average number of shares outstanding is adjusted to reflect the effect of potentially dilutive securities, consisting solely of stock options. All per share amounts disclosed in these financial statements have been restated to reflect the impact of the two-for-one common stock split distributed on March 1, 2005.

Potential common shares totaling 136,000 and 125,000 were not included in the diluted earnings per share amounts for the three months ended November 30, 2005 and 2004, respectively, as their effect would have been anti-dilutive. For the three months ended November 30, 2005 and 2004, potentially dilutive securities consisted solely of stock options and resulted in potential common shares of 3,950,000 and 1,670,000, respectively. The potential common shares disclosed in this paragraph for the three months ended November 30, 2004 are presented on a pre-stock split basis, as described in Note 3-**Stockholders' Equity**.

Potential common shares totaling 170,000 and 127,000 were not included in the diluted earnings per share amounts for the six months ended November 30, 2005 and 2004, respectively, as their effect would have been anti-dilutive. For the six months ended November 30, 2005 and 2004, potentially dilutive securities consisted solely of stock options and resulted in potential common shares of 3,830,000 and 1,687,000, respectively. The potential common shares disclosed in this paragraph for the six months ended November 30, 2004 are presented on a pre-stock split basis, as described in Note 3-**Stockholders' Equity**.

5. Acquisition

On August 27, 2004, the Company acquired approximately 80% of the shares of Nordic Spring Management Consulting AB ("Nordic Spring") of Stockholm, Sweden for \$4.6 million. This acquisition expanded the Company's European presence into the Nordic region. Consideration paid, consisted of approximately \$3.6 million in cash, \$250,000 in transaction costs directly attributable to the acquisition and approximately 38,000 shares of common stock with a fair value of approximately \$700,000. The Company has the obligation to purchase the remaining 20% of the shares of Nordic Spring in the first quarter of fiscal 2007. The purchase price is dependent upon Nordic Spring's operating income (before interest and depreciation) during the Company's fiscal 2006 and will be payable 50% in cash and 50% in the Company's common stock.

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The Company recorded \$82,000 and \$30,000 for the three months ended November 30, 2005 and 2004, respectively and \$165,000 and \$30,000 for the six months ended November 30, 2005 and 2004, respectively, as the minority interest in the operating results of Nordic Spring; these amounts are included in the Company's "selling, general and administrative expenses" in the respective Consolidated Statements of Income and the related liabilities are included in "other liabilities" in the Consolidated Balance Sheet as of November 30, 2005.

In accordance with SFAS No. 141, "Business Combinations", the Company allocated the purchase price based on the fair value of the assets acquired and liabilities assumed with the residual recorded as goodwill. The total intangible assets acquired include approximately \$4.0 million for goodwill, \$173,000 for a non-compete agreement, \$161,000 for customer relationships and \$25,000 for an associate database. The associate database is amortized over four years, the non-compete agreement over three years and customer relationships over two and a half years. Pro forma disclosures related to this acquisition are not included as such disclosures are not material.

6. Intangible Assets and Goodwill

The following table presents details of our intangible assets, estimated lives, related accumulated amortization and goodwill:

	As of November 30, 2005			As of May 31, 2005		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships (2 – 4 years)	\$ 5,010,000	\$ (3,125,000)	\$ 1,885,000	\$ 5,010,000	\$ (2,480,000)	\$ 2,530,000
Associate and customer database (1 – 5 years)	1,759,000	(1,194,000)	565,000	1,759,000	(1,089,000)	670,000
Non-compete agreements (1 – 4 years)	802,000	(702,000)	100,000	802,000	(673,000)	129,000
Developed technology (3 years)	520,000	(401,000)	119,000	520,000	(310,000)	210,000
Trade name and trademark (indefinite life)	82,000	—	82,000	82,000	—	82,000
Total	\$ 8,173,000	\$ (5,422,000)	\$ 2,751,000	\$ 8,173,000	\$ (4,552,000)	\$ 3,621,000
Goodwill (indefinite life)	\$84,605,000	\$ (4,617,000)	\$ 79,988,000	\$ 84,630,000	\$ (4,617,000)	\$ 80,013,000

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and other intangible assets with indeterminate lives are no longer subject to amortization but are tested for impairment annually or whenever events or changes in circumstances indicate that the asset might be impaired. Intangible assets with finite lives continue to be subject to amortization, and any impairment is determined in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The Company recorded amortization expense of \$435,000 and \$411,000 for the three months ended November 30, 2005 and 2004, respectively and \$870,000 and \$822,000 for the six months ended November 30, 2005 and 2004, respectively. Estimated intangible asset amortization expense (based on existing intangible assets) for the years ending May 31, 2006, 2007, 2008 and 2009 is \$1,740,000, \$1,381,000, \$382,000 and \$36,000, respectively. Amortization of the existing intangible assets of the Company will be complete as of the end of fiscal 2009. The change in the balance of goodwill is the result of the translation of goodwill balances of our non-U.S. based operations at the exchange rate effective at the end of the quarterly period.

7. Segment Reporting

In accordance with the requirements of SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, the Company discloses information regarding operations outside of the United States. The Company operates as one segment. The accounting policies for the domestic and international operations are the same as those described in Note 1-*Description of the Company and its Business* of the Company’s 2005 Annual Report on Form 10-K. Summarized financial information regarding the Company’s domestic and international operations is shown in the following table for the three months and six months ended November 30, 2005 and 2004.

	Revenue for the three months ended		Revenue for the six months ended		Long-Lived Assets as of	
	November 30, 2005	November 30, 2004	November 30, 2005	November 30, 2004	November 30, 2005(1)	May 31, 2005(1)
United States	\$ 125,012,000	\$ 112,872,000	\$ 241,517,000	\$ 209,740,000	\$ 18,467,000	\$ 7,311,000
The Netherlands	15,169,000	13,348,000	30,286,000	24,271,000	871,000	782,000
Other	17,957,000	10,807,000	35,923,000	18,417,000	927,000	734,000
Total	\$ 158,138,000	\$ 137,027,000	\$ 307,726,000	\$ 252,428,000	\$ 20,265,000	\$ 8,827,000

- (1) Long-lived assets are comprised of computers and equipment, furniture and leasehold improvements. In October 2005, the Company completed the purchase of a 56,000 square foot building in Irvine, California for cash consideration of \$9.3 million. The Company will, upon completion of building improvements, occupy the building during fiscal 2007 as its corporate headquarters and domestic service center. Some of the building will continue to be let to existing tenants until such time as the Company requires use of the entire building.

8. Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS 123 (R). This standard requires all share-based payments to employees, including grants of employee stock options, to be expensed in the financial statements based on their fair values beginning with the first annual period beginning after June 15, 2005 (for the Company, this will occur June 1, 2006, the start of fiscal 2007). The pro forma disclosures permitted under SFAS 123 will no longer be allowed as an alternative presentation to recognition in the financial statements. Under SFAS 123 (R), the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123 (R), while the retroactive method records compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is currently evaluating the requirements of SFAS 123 (R) and expects the adoption of SFAS 123 (R) to have a material impact on its consolidated financial position and results of operation. The Company has not determined the method of adoption or whether the adoption will result in amounts similar to the current pro forma disclosures under the original SFAS 123.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes. This discussion and analysis contains “forward-looking statements”, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to expectations concerning matters that are not historical facts. Such forward-looking statements may be identified by words such as “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “should,” or “will” or the negative of these terms or other comparable terminology. These statements, and all phases of our operations, are subject to known and unknown risks, uncertainties and other factors, some of which are identified herein and in our report on Form 10-K for the year ended May 31, 2005 (File No. 0-32113). Readers are cautioned not to place undue reliance on these forward-looking statements. Our actual results, levels of activity, performance or achievements and those of our industry may be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. We undertake no obligation to update the forward-looking statements in this filing. References in this filing to “Resources Connection,” “Resources Global Professionals,” the “Company,” “we,” “us,” and “our” refer to Resources Connection, Inc. and its subsidiaries.

Overview

Resources Global Professionals is an international professional services firm that provides experienced accounting and finance, risk management and internal audit, information technology, human resources, supply chain management and legal professionals to clients on a project basis. We assist our clients with discrete projects requiring specialized expertise in 1) accounting and finance, such as mergers and acquisitions due diligence, financial analyses (e.g., product costing and margin analyses), corporate reorganizations, budgeting and forecasting, audit preparation, public entity reporting and tax-related projects; 2) information management services, such as financial system/enterprise resource planning implementation and post implementation optimization; 3) human resources management services, such as compensation program design and implementation and change management; 4) internal audit services (provided via our subsidiary Resources Audit Solutions or “RAS”), such as documenting internal controls and assisting clients with their compliance efforts under the Sarbanes-Oxley Act of 2002 (“Sarbanes”); 5) supply chain management (“SCM”) services, such as leading strategic sourcing efforts,

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negotiating contracts and performing tactical purchasing; and 6) legal services, such as providing attorneys, paralegals and contract managers to assist clients and law firms with project-based or peak period needs.

We began operations in June 1996 as a division of Deloitte & Touche LLP and operated as a wholly owned subsidiary of Deloitte & Touche LLP from January 1997 until April 1999. In November 1998, our management formed RC Transaction Corp., renamed Resources Connection, Inc., to raise capital for an intended management-led buyout. In April 1999, we completed the management-led buyout in partnership with several investors. In December 2000, we completed our initial public offering of common stock and began trading on the Nasdaq National Market under the symbol "RECN". In January 2005, we announced the change of our operating entity name to Resources Global Professionals to better reflect the Company's global capabilities.

Growth in revenue, to date, has generally been the result of establishing offices in major markets. The following table summarizes for each fiscal year the number of offices opened, international expansion and the creation of additional service lines.

<u>Fiscal Year</u>	<u>Number of Domestic Offices Opened</u>	<u>International Operations Established</u>	<u>Service Line Established</u>
1997 (initial year)	Nine		Accounting and finance
1998	Nine		
1999	Ten		Information management
2000	Four	Toronto, Canada; Taipei, Taiwan; Hong Kong, People's Republic of China	Human resources management
2001	Nine	London, England	
2002	Two		
2003	Six	Birmingham, England	Resources Audit Solutions; Supply chain management (via acquisition)
2004	Two opened; two consolidation closures	The Netherlands (5 locations via acquisition); Melbourne & Sydney, Australia (via acquisition); Tokyo, Japan	
2005	Two opened; two consolidation closures	Stockholm, Sweden (via acquisition); Paris, France; Calgary, Canada	Legal
2006	One	Brussels, Belgium; Copenhagen, Denmark; Luxembourg; Oslo, Norway; Beijing, People's Republic of China; Singapore	

On August 27, 2004, the Company acquired approximately 80% of Nordic Spring Management Consulting AB ("Nordic Spring") of Stockholm, Sweden for \$4.6 million. This acquisition expanded the Company's European presence into the Nordic region of Europe. Consideration paid consisted of approximately \$3.6 million in cash, \$250,000 in transaction costs directly attributable to the acquisition and approximately 38,000 shares of common stock with a fair value of approximately \$700,000. The Company has the obligation to purchase the remaining 20% of the shares of Nordic Spring in the first quarter of fiscal 2007. The purchase price is dependent upon Nordic Spring's operating income (before interest and depreciation) during the Company's fiscal 2006 and will be payable 50% in cash and 50% in the Company's common stock.

During the second quarter of fiscal 2006, we opened practices in Brussels, Belgium; Luxembourg; Beijing, People's Republic of China; and Singapore. The opening of these offices continues the implementation of our strategy of expanding our presence in Europe and the Asia-Pacific region. As of November 30, 2005, we served our clients through 50 offices in the United States and 22 offices abroad.

Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments 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.

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The following represents a summary of our critical accounting policies, defined as those policies that we believe: (a) are the most important to the portrayal of our financial condition and results of operations and (b) involve inherently uncertain issues that require management's most difficult, subjective or complex judgments.

Valuation of long-lived assets—We assess the potential impairment of long-lived tangible and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Under the current accounting standard, our goodwill and certain other intangible assets are not subject to periodic amortization over their estimated useful lives. These assets are now considered to have an indefinite life and their carrying values are required to be assessed by us for impairment at least annually. Depending on future market values, our operating performance and other factors, these assessments could potentially result in impairment reductions of these intangible assets in the future and this adjustment may materially affect the Company's future financial results.

Allowance for doubtful accounts—We maintain an allowance for doubtful accounts for estimated losses resulting from our clients failing to make required payments for services rendered. We estimate this allowance based upon our knowledge of the financial condition of our clients, review of historical receivable and reserve trends and other pertinent information. If the financial condition of our clients deteriorates or we note an unfavorable trend in aggregate receivable collections, additional allowances may be required and these additional allowances may materially affect the Company's future financial results.

Income taxes—In order to prepare our consolidated financial statements, we are required to make estimates of income taxes, if applicable, in each jurisdiction in which we operate. The process incorporates an assessment of any current tax exposure together with temporary differences resulting from different treatment of transactions for tax and financial statement purposes. These differences result in deferred tax assets and liabilities that are included in our Consolidated Balance Sheets. The recovery of deferred tax assets from future taxable income must be assessed and, to the extent recovery is not likely, we will establish a valuation allowance. An increase in the valuation allowance results in recording additional tax expense. If the ultimate tax liability is greater than the amount of tax expense we have reflected in the Consolidated Statements of Income, an adjustment of tax expense may need to be recorded and this adjustment may materially affect the Company's future financial results.

Revenue recognition—We primarily charge our clients on an hourly basis for the professional services of our associates. We recognize revenue once services have been rendered and invoice the majority of our clients in the United States on a weekly basis. Some of our clients served by our international operations are billed on a monthly basis. Our clients are contractually obligated to pay us for all hours billed. To a much lesser extent, we also earn revenue if a client hires one of our associates. This type of contractually non-refundable revenue is recognized at the time our client completes the hiring process.

We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Three Months Ended November 30, 2005 Compared to Three Months Ended November 30, 2004

Computations of percentage change period over period are based upon the truncated numbers presented herein.

Revenue. Revenue increased \$21.1 million, or 15.4%, to \$158.1 million for the three months ended November 30, 2005 from \$137.0 million for the three months ended November 30, 2004. The continued expansion of our scope of services and improved overall demand for our services triggered the increase in revenue, resulting in more billable hours for our associates and an improvement in rate per hour. We believe our business expanded due in part to increasing market awareness of our ability to provide services. In particular, finance and accounting services increased significantly in the current quarter compared to the prior year. We believe one of the reasons for the increase in these types of engagements is new projects from existing clients who had engaged us to provide services during their initial phase of compliance with Sarbanes. To a lesser extent, all of our other service lines experienced growth in the second quarter of fiscal 2006 compared to fiscal 2005's second quarter (except for the RAS service line). Though we believe we have improved the awareness of our service offerings with clients and prospective clients because of assistance we have offered during the initial phase of compliance with Sarbanes, there can be no assurance that there will be continuing demand for Sarbanes or related internal accounting control services.

Average bill rates improved by 6.4% compared to the prior year average bill rate. The increase in revenue is also reflected by the increase in the number of associates on assignment from 2,645 at the end of the second quarter of fiscal 2005 to 2,882 at the end of the second quarter of fiscal 2006. We operated 72 and 62 offices in the second quarters of fiscal 2006 and fiscal 2005, respectively. Our clients do not sign long-term contracts with us. Therefore, our future revenue or operating results cannot be reliably predicted from previous quarters or from extrapolation of past results.

Revenue for domestic United States offices improved 10.7% or \$12.1 million from \$112.9 million for the three months ended November 30, 2004 to \$125.0 million for the three months ended November 30, 2005. Revenue for the Dutch practice

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improved 14.3% or \$1.9 million, from \$13.3 million for the three months ended November 30, 2004 to \$15.2 million for the three months ended November 30, 2005. The other international offices' revenue grew 66.7% or \$7.2 million, from \$10.8 million for the three months ended November 30, 2004 to \$18.0 million for the three months ended November 30, 2005. Revenue growth in the international practices was approximately \$850,000 less in the second quarter of fiscal 2006 compared to fiscal 2005 due to the strengthening U.S. dollar compared to international currencies. Virtually all international practices enjoyed growth both from referrals from the United States as well as from internally generated opportunities, particularly in the United Kingdom, Hong Kong, Japan, Canada and Sweden.

Direct Cost of Services. Direct cost of services increased \$13.3 million, or 16.2%, to \$95.2 million for the three months ended November 30, 2005 from \$81.9 million for the three months ended November 30, 2004. The increase in direct cost of services was attributable to the previously described expansion of the scope of services resulting in more chargeable hours for our associates at higher average pay rates; overall, the average pay rate per hour increased by 5.3% year-over-year. The direct cost of services as a percentage of revenue (the "direct cost of services percentage") was 60.2% and 59.7% for the three months ended November 30, 2005 and 2004, respectively. The direct cost of services percentage increased between the two quarters because an improvement in the ratio of direct associate salary expense compared to hourly revenue generated in the second quarter of fiscal 2006 was offset by an increase in compensation related benefits, including payment for hours not worked due to the hurricanes in the states of Texas and Florida. In addition, the volume of client reimbursable expenses was higher in the fiscal 2006 quarter, as the Company's projects requiring associate travel increased.

The cost of compensation and related benefits offered to the associates of our international offices has been greater as a percentage of revenue than our domestic operations. In addition, international offices use independent contractors more extensively. Thus, the direct cost of services percentage of our international offices has usually exceeded our domestic operation's targeted direct cost of services percentage of 60%.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased as a percentage of revenue from 20.6% for the quarter ended November 30, 2004 to 23.3% for the quarter ended November 30, 2005 as the Company hired additional personnel across the enterprise to support the larger organization and position for future growth. Selling, general and administrative expenses increased \$8.6 million, or 30.5%, to \$36.8 million for the three months ended November 30, 2005 from \$28.2 million for the three months ended November 30, 2004. In particular, compensation and related benefit expenses increased as management and administrative headcount grew from 529 at the end of the second quarter of fiscal 2005 to 647 at the end of the second quarter of fiscal 2006. The increase in dollars spent was attributable to the increase in salaries and benefit costs driven by the larger headcount and occupancy and related costs from relocated, expanded or new offices. Other increases in the 2006 fiscal second quarter were: bonus expense as a result of the Company's improved revenue results and an increase in spending for software licenses and computer maintenance charges. These increases were offset by the following: the Company did not need to increase its allowance for doubtful accounts during the quarter; the Company reduced spending on national advertising compared to the fiscal 2005 second quarter as the Company reviewed its advertising campaign; and the Company did not incur any significant severance expense in the fiscal 2006 second quarter as it did in fiscal 2005.

The Company anticipates its selling, general and administrative expenses to continue to increase during fiscal 2006 as it recruits certain key management positions, to support and grow the current revenue level. However, there can be no assurance that the Company will be able to recruit and identify appropriate candidates.

Amortization and Depreciation Expense. Amortization of intangible assets was \$435,000 in the second quarter of fiscal 2006 compared to \$411,000 in the prior year's second quarter. The amortization of the intangible assets identified in the purchase price allocation of Nordic Spring in fiscal 2005 offset the completion of amortization of certain of the intangibles associated with prior year acquisitions. Absent another acquisition during fiscal 2006, amortization should remain constant at \$435,000 per quarter for the remainder of the year.

Depreciation expense decreased from \$567,000 for the three months ended November 30, 2004 to \$545,000 for the three months ended November 30, 2005. An increase in depreciation related to the offices relocated or expanded since August 2004, depreciation related to purchases in the second quarter and investments in information technology was offset by the completion of depreciation on assets acquired during the initial relocation from Deloitte & Touche office space during fiscal 1999 and 2000. During the second quarter, select U.S. offices commenced usage of the Company's new operating system. Also, in October 2005, the Company completed the purchase of an office building in Irvine, California for approximately \$9.3 million. The Company will transition its corporate office and domestic service center to the new location during fiscal 2007. As the Company completes the implementation of its operating system and begins to relocate to the new office building, it is expected that the Company's depreciation expense will increase.

Interest Income. During the second quarter of fiscal 2006, interest income was \$1.1 million compared to interest income of \$411,000 in the quarter ended November 30, 2004. The increase in interest income is a combination of a higher average cash balance available for investment in the second quarter of fiscal 2006 and the improved interest rates available year over year.

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The Company has invested available cash in money market and commercial paper investments that have been classified as cash equivalents due to the short maturities of these investments. In addition, as of November 30, 2005, the Company has \$39.0 million of investments in government-agency bonds with remaining maturity dates between three months and one year from the balance sheet date classified as short-term investments and considered “held-to-maturity” securities. In addition, the Company also holds \$49.0 million in government-agency bonds with maturity dates in excess of one year from the balance sheet date. The bonds, classified as long-term investments, mature through November 2007 and have coupon rates ranging from 3.5% to 4.9%. These investments have been classified in the November 30, 2005 consolidated balance sheet as “held-to-maturity” securities.

Income Taxes. The provision for income taxes decreased from \$10.8 million for the three months ended November 30, 2004 to \$10.3 million for the three months ended November 30, 2005. The decrease was the result of slightly lower pre-tax income in the current fiscal quarter compared to the prior year second quarter, as well as a decrease in the Company’s effective tax rate. The Company lowered its effective tax rate to 39.0% in the quarter ended November 30, 2005 compared to 41.0% in the three months ended November 30, 2004. The Company’s effective tax rate was lower in the fiscal 2006 quarter due primarily to the impact on the tax provision of the improved operating results of the Company’s international offices. Periodically, the Company reviews the components of both book and taxable income to analyze the adequacy of the tax provision. There can be no assurance that the Company’s effective tax rate will not increase in the future.

Six Months Ended November 30, 2005 Compared to Six Months Ended November 30, 2004

Computations of percentage change period over period are based upon the truncated numbers presented herein.

Revenue. Revenue increased \$55.3 million, or 21.9%, to \$307.7 million for the six months ended November 30, 2005 from \$252.4 million for the six months ended November 30, 2004. The continued expansion of our scope of services and improved overall demand for our services triggered the increase in revenue, resulting in more billable hours for our associates and an improvement in rate per hour.

Average bill rates improved by 8.5% compared to the prior year average bill rate. The increase in revenue is also reflected by the increase in the number of associates on assignment from 2,645 at the end of the second quarter of fiscal 2005 to 2,882 at the end of the second quarter of fiscal 2006. We operated 72 and 62 offices in the first half of fiscal 2006 and fiscal 2005, respectively.

Revenue for domestic United States offices improved 15.2% or \$31.8 million from \$209.7 million for the six months ended November 30, 2004 to \$241.5 million for the six months ended November 30, 2005. Revenue for the Dutch practice improved 24.7% or \$6.0 million, from \$24.3 million for the six months ended November 30, 2004 to \$30.3 million for the six months ended November 30, 2005. The Netherlands’ practice’s revenue was approximately 2% less on a U.S. dollar basis than in Euros, as a result of the strengthening dollar between the first six months of fiscal 2006 and 2005. The other international offices’ revenue grew 95.1% or \$17.5 million, from \$18.4 million for the six months ended November 30, 2004 to \$35.9 million for the six months ended November 30, 2005. Virtually all international practices enjoyed growth both from referrals from the United States as well as internally generated opportunities, particularly in the United Kingdom, Sweden, Hong Kong, Japan and Canada.

Direct Cost of Services. Direct cost of services increased \$34.0 million, or 22.4%, to \$185.8 million for the six months ended November 30, 2005 from \$151.8 million for the six months ended November 30, 2004. The increase in direct cost of services was attributable to the previously described expansion of the scope of services resulting in more chargeable hours for our associates at higher average pay rates; overall, the average pay rate per hour increased by 7.6% year-over-year. The direct cost of services as a percentage of revenue (the “direct cost of services percentage”) was 60.4% and 60.1% for the six months ended November 30, 2005 and 2004, respectively. The direct cost of services percentage increased for the six months ended November 30, 2005 because an improvement in the ratio of direct associate salary expense compared to hourly revenue was offset by the increase in volume of client reimbursable expenses, as the Company’s projects requiring associate travel increased.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased as a percentage of revenue from 21.1% for the first half of fiscal 2005 to 23.0% for the first half of fiscal 2006 as the Company hired additional personnel across the enterprise to support the larger organization and position for future growth. Selling, general and administrative expenses increased \$17.5 million, or 32.8%, to \$70.9 million for the six months ended November 30, 2005 from \$53.4 million for the six months ended November 30, 2004. In particular, compensation and related benefit expenses increased as management and administrative headcount grew from 529 at the end of the second quarter of fiscal 2005 to 647 at the end of the second quarter of fiscal 2006. The increase in dollars spent was attributable to the increase in salaries and benefit costs driven by the larger headcount and occupancy and related costs from relocated, expanded or new offices. Other increases in the first six months of fiscal 2006 were: bonus expense as a result of the Company’s improved revenue results; an increase in spending for advertising related to associate recruitment; and an increase in spending for software licenses and computer maintenance charges. These increases were offset by the following: the Company did not increase its allowance

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for doubtful accounts during the second quarter of fiscal 2006; and the Company did not incur any significant severance expense in the fiscal 2006 second quarter as it did in fiscal 2005.

Amortization and Depreciation Expense. Amortization of intangible assets was \$870,000 in the first half of fiscal 2006 compared to \$822,000 in the prior year's first half. The amortization of the intangible assets identified in the purchase price allocation of Nordic Spring in fiscal 2005 offset the completion of amortization of certain of the intangibles associated with prior year acquisitions. Absent another acquisition during fiscal 2006, amortization should remain constant at \$435,000 per quarter for the remainder of the year.

Depreciation expense decreased slightly from \$1.1 million for the six months ended November 30, 2004 to \$1.0 million for the six months ended November 30, 2005. An increase in depreciation related to the offices relocated or expanded since May 2005, purchases in the first half of the fiscal year and investments in information technology was offset by the completion of depreciation on assets acquired during the initial relocation from Deloitte & Touche office space during fiscal 1999 and 2000.

Interest Income. During the first half of fiscal 2006, interest income was \$2.1 million compared to interest income of \$715,000 in the first half of fiscal 2005. The increase in interest income is a combination of a higher average cash balance available for investment in the first half of fiscal 2006 and the improved interest rates available year over year.

Income Taxes. The provision for income taxes increased from \$18.9 million for the six months ended November 30, 2004 to \$20.1 million for the six months ended November 30, 2005 as a result of the increase in the Company's pre-tax income. The effective tax rate was 39.3% and 41.0% in the six months ended November 30, 2005 and 2004, respectively, which differs from the federal statutory rate primarily due to state taxes, net of federal benefit. The Company's effective tax rate was lower for the six months ended November 30, 2005 due primarily to the impact on the tax provision of the improved operating results of the Company's international offices.

Comparability of Quarterly Results. Our quarterly results have fluctuated in the past and we believe they will continue to do so in the future. Certain factors that could affect our quarterly operating results are described below in the section of this report entitled "Risks Related to Our Business." Due to these and other factors, we believe that quarter-to-quarter comparisons of our results of operations are not meaningful indicators of future performance.

Liquidity and Capital Resources

Our primary source of liquidity is cash provided by our operations and, to the extent necessary, available commitments under our revolving line of credit. On an annual basis, we have generated positive cash flows from operations since inception.

The Company has amended its original \$10.0 million unsecured revolving credit facility with Bank of America; the amended agreement (the "Credit Agreement") reduces the amount available to \$3.0 million. The Credit Agreement allows the Company to choose the interest rate applicable to advances. The interest rate options are Bank of America's prime rate, a London Inter-Bank Offered ("LIBOR") rate plus 1.5% or Bank of America's Grand Cayman Banking Center ("IBOR") rate plus 1.5%. Interest, if any, is payable monthly. There is an annual facility fee of 0.25% payable on the unutilized portion of the Credit Agreement. The Credit Agreement expires December 1, 2007. As of November 30, 2005, the Company had no outstanding borrowings and is in compliance with all covenants included in the Credit Agreement.

Net cash provided by operating activities was \$24.2 million for the six months ended November 30, 2005 compared to \$28.4 million for the six months ended November 30, 2004. Net cash provided by operating activities declined in fiscal 2006 despite an increase in net income of \$3.9 million in the first six months of fiscal 2006 as compared to fiscal 2005. The net change in working capital in the fiscal 2006 period resulted in a decrease in operating cash flows of \$9.6 million compared to a decrease of \$2.7 million in the fiscal 2005 period. The primary components of the change in working capital between the two periods were: the Company experienced slower growth in its accounts payable, salary and related accruals in the current year period as compared to the prior year, and in the prior year, the Company was in a significant prepaid tax position as compared to this year (unfavorable to cash flow) and the Company experienced slower growth in its accounts receivable in the current year compared to the prior year (favorable to cash flow). The Company's working capital includes \$65.1 million in cash and cash equivalents as of November 30, 2005.

Net cash used in investing activities was \$4.6 million for the first six months of fiscal 2006 compared to \$30.1 million in the first six months of fiscal 2005. The Company redeemed a net of \$32.5 million more in short-term investments in the first six months of fiscal 2006 as compared to fiscal 2005; however, the Company invested a net of \$2.0 million less in long-term investments in the current fiscal year as compared to the prior year period. In the prior year first six months, the Company also used a net amount of approximately \$1.9 million in cash to complete the acquisition of an 80% interest in Nordic Spring and pay related transaction costs. The Company spent approximately \$12.6 million on property, plant and equipment in the first six months of fiscal 2006, compared to \$1.6 million in the fiscal 2005 period; this included approximately \$9.3 million for a 56,000 square foot office building in Irvine, California. The Company will transition its corporate office and domestic service center to the new location during fiscal 2007; however, some of the building will continue to be let to existing tenants until such time as the Company requires use of the entire building.

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Net cash provided by financing activities totaled \$8.4 million for the six months ended November 30, 2005, compared to \$4.8 million for the six months ended November 30, 2004. More stock options were exercised and more stock was purchased via the Company's Employee Stock Purchase Plan in the first six months of fiscal 2006 compared to the prior year period.

Our ongoing operations and anticipated growth in the geographic markets we currently serve will require us to continue making investments in capital equipment, primarily technology hardware and software. In addition, we may consider making additional strategic acquisitions. We anticipate that our current cash and the ongoing cash flows from our operations will be adequate to meet our working capital and capital expenditure needs for at least the next 12 months. If we require additional capital resources to grow our business, either internally or through acquisition, we may seek to sell additional equity securities or secure additional debt financing. The sale of additional equity securities or the addition of new debt financing could result in additional dilution to our stockholders. We may not be able to obtain financing arrangements in amounts or on terms acceptable to us in the future. In the event we are unable to obtain additional financing when needed, we may be compelled to delay or curtail our plans to develop our business, which could have a material adverse affect on our operations, market position and competitiveness.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS 123 (R). This standard requires all share-based payments to employees, including grants of employee stock options, to be expensed in the financial statements based on their fair values beginning with the first annual period beginning after June 15, 2005 (for the Company, this will occur beginning June 1, 2006, the start of fiscal 2007). The pro forma disclosures permitted under SFAS 123 will no longer be allowed as an alternative presentation to recognition in the financial statements. Under SFAS 123 (R), the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123 (R), while the retroactive method records compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is currently evaluating the requirements of SFAS 123 (R) and expects the adoption of SFAS 123 (R) to have a material impact on its consolidated financial position and results of operation. The Company has not determined the method of adoption or whether the adoption will result in amounts similar to the current pro forma disclosures under the original SFAS 123.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

RISKS RELATED TO OUR BUSINESS

This section highlights specific risks affecting our business, operating results and financial condition. The order in which the risks appear is not intended as an indication of their relative weight or importance.

We must provide our clients with highly qualified and experienced associates, and the loss of a significant number of our associates, or an inability to attract and retain new associates, could adversely affect our business and operating results.

Our business involves the delivery of professional services, and our success depends on our ability to provide our clients with highly qualified and experienced associates who possess the skills and experience necessary to satisfy their needs. Such professionals are in great demand, particularly in certain geographic areas, and are likely to remain a limited resource for the foreseeable future. Our ability to attract and retain associates with the requisite experience and skills depends on several factors including, but not limited to, our ability to:

- provide our associates with full-time employment;
- obtain the type of challenging and high-quality projects which our associates seek;
- pay competitive compensation and provide competitive benefits; and
- provide our associates with flexibility as to hours worked and assignment of client engagements.

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We cannot assure you that we will be successful in accomplishing any of these factors and, even if we are, that we will be successful in attracting and retaining the number of highly qualified and experienced associates necessary to maintain and grow our business.

The market for professional services is highly competitive, and if we are unable to compete effectively against our competitors our business and operating results could be adversely affected.

We operate in a competitive, fragmented market, and we compete for clients and associates with a variety of organizations that offer similar services. The competition is likely to increase in the future due to the expected growth of the market and the relatively few barriers to entry. Our principal competitors include:

- consulting firms;
- independent contractors;
- employees loaned by the Big Four accounting firms;
- traditional and Internet-based staffing firms; and
- the in-house resources of our clients.

We cannot assure you that we will be able to compete effectively against existing or future competitors. Many of our competitors have significantly greater financial resources, greater revenues and greater name recognition, which may afford them an advantage in attracting and retaining clients and associates. In addition, our competitors may be able to respond more quickly to changes in companies' needs and developments in the professional services industry.

An economic downturn or change in the use of outsourced professional services associates could adversely affect our business.

During the downturn in the U.S. economy during fiscal 2002 and 2003, our business was adversely affected. As the general level of economic activity slowed, our clients delayed or canceled plans that involved professional services, particularly outsourced professional services. Consequently, we experienced fluctuations in demand for our services. In addition, the use of professional services associates on a project-by-project basis could decline for non-economic reasons. In the event of a non-economic reduction in the demand for our associates, our financial results could suffer.

Our business depends upon our ability to secure new projects from clients and, therefore, we could be adversely affected if we fail to do so.

We do not have long-term agreements with our clients for the provision of services. The success of our business is dependent on our ability to secure new projects from clients. For example, if we are unable to secure new client projects because of improvements in our competitors' service offerings, or because of a change in government regulatory requirements, or because of an economic downturn decreasing the demand for outsourced professional services, our business is likely to be materially adversely affected. New impediments to our ability to secure projects from clients may develop over time, such as the increasing use by large clients of companies or in-house procurement groups that manage their relationship with service providers.

We may be legally liable for damages resulting from the performance of projects by our associates or for our clients' mistreatment of our associates.

Many of our engagements with our clients involve projects that are critical to our clients' businesses. If we fail to meet our contractual obligations, we could be subject to legal liability or damage to our reputation, which could adversely affect our business, operating results and financial condition. It is likely, because of the nature of our business, that we will be sued in the future. Claims brought against us could have a serious negative effect on our reputation and on our business, financial condition and results of operations.

Because we are in the business of placing our associates in the workplaces of other companies, we are subject to possible claims by our associates alleging discrimination, sexual harassment, negligence and other similar activities by our clients. We may also be subject to similar claims from our clients based on activities by our associates. The cost of defending such claims, even if groundless, could be substantial and the associated negative publicity could adversely affect our ability to attract and retain associates and clients.

We may not be able to grow our business, manage our growth or sustain our current business.

We grew rapidly from our inception in 1996 until 2001 by opening new offices and by increasing the volume of services we provide through existing offices. We experienced a decline in revenue in fiscal 2002 to \$181.7 million from \$191.5 million in fiscal 2001, but revenue has increased in each subsequent fiscal year. However, there can be no assurance that we will continue to be able to maintain or expand our market presence in our current locations or to successfully enter other markets or locations. Our ability to successfully grow our business will depend upon a number of factors, including our ability to:

- grow our client base;
- expand profitably into new cities;
- provide additional professional services lines;
- hire qualified and experienced associates;
- maintain margins in the face of pricing pressures;
- manage costs; and
- maintain or grow revenues from clients who have engaged us for Sarbanes compliance.

Even if we are able to continue our growth, the growth will result in new and increased responsibilities for our management as well as increased demands on our internal systems, procedures and controls, and our administrative, financial, marketing and other resources. Failure to adequately respond to these new responsibilities and demands may adversely affect our business, financial condition and results of operation.

The increase in our international activities will expose us to additional operational challenges that we might not otherwise face.

As we increase our international activities, we will have to confront and manage a number of risks and expenses that we would not otherwise face if we conducted our operations solely in the United States. If any of these risks or expenses occur, there could be a material negative effect on our operating results. These risks and expenses include:

- difficulties in staffing and managing foreign offices as a result of, among other things, distance, language and cultural differences;
- less flexible labor laws and regulations;
- expenses associated with customizing our professional services for clients in foreign countries;
- foreign currency exchange rate fluctuations, when we sell our professional services in denominations other than U.S. dollars;
- protectionist laws and business practices that favor local companies;
- political and economic instability in some international markets;
- multiple, conflicting and changing government laws and regulations;
- trade barriers;
- reduced protection for intellectual property rights in some countries; and
- potentially adverse tax consequences.

We have acquired, and may continue to acquire, companies, and these acquisitions could disrupt our business.

We have acquired several companies and may continue to acquire companies in the future. Entering into an acquisition entails many risks, any of which could harm our business, including:

- diversion of management's attention from other business concerns;
- failure to integrate the acquired company with our existing business;
- failure to motivate, or loss of, key employees from either our existing business or the acquired business;
- potential impairment of relationships with our employees and clients;

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- additional operating expenses not offset by additional revenue;
- incurring significant non-recurring charges;
- incurring additional debt with restrictive covenants or other limitations;
- dilution of our stock as a result of issuing equity securities; and
- assumption of liabilities of the acquired company.

Our business could suffer if we lose the services of one or more key members of our management.

Our future success depends upon the continued employment of Donald B. Murray, our chief executive officer, and Stephen J. Giusto, our chief financial officer. The departure of Mr. Murray, Mr. Giusto or other members of our senior management team could significantly disrupt our operations. Key members of our senior management team also include Karen M. Ferguson, an executive vice president, John D. Bower, our senior vice president, finance, and Kate W. Duchene, our chief legal officer and executive vice president of human relations. We do not have employment agreements with Mr. Bower or Ms. Duchene.

Our quarterly financial results may be subject to significant fluctuations that may increase the volatility of our stock price.

Our results of operations could vary significantly from quarter to quarter. Factors that could affect our quarterly operating results include:

- our ability to attract new clients and retain current clients;
- the mix of client projects;
- the announcement or introduction of new services by us or any of our competitors;
- the expansion of the professional services offered by us or any of our competitors into new locations both nationally and internationally;
- changes in demand for our services by our clients;
- the entry of new competitors into any of our markets;
- the number of associates eligible for our offered benefits as their average length of employment with the Company increases;
- the number of holidays in a quarter, particularly the day of the week on which they occur;
- changes in the pricing of our professional services or those of our competitors;
- the amount and timing of operating costs and capital expenditures relating to management and expansion of our business; and
- the timing of acquisitions and related costs, such as compensation charges which fluctuate based on the market price of our common stock; and
- the periodic fourth quarter consisting of 14 weeks.

Due to these and other factors, we believe that quarter-to-quarter comparisons of our results of operations are not meaningful indicators of future performance. It is possible that in some future periods, our results of operations may be below the expectations of investors. If this occurs, the price of our common stock could decline.

If our internal controls over financial reporting do not comply with the requirements of Sarbanes, our business and stock price could be adversely affected.

Section 404 of Sarbanes requires us to evaluate periodically the effectiveness of our internal control over financial reporting, and to include a management report assessing the effectiveness of our internal controls as of the end of each fiscal year. The first management report on internal controls is contained in our Report on Form 10-K for the fiscal year ended May 31, 2005. Section 404 also requires our independent registered public accountant to attest to, and report on, management's assessment of our internal control over financial reporting.

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Our management does not expect that our internal control over financial reporting will prevent all errors or frauds. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, involving us have been, or will be, detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of a person, or by collusion among two or more people, or by management override of controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies and procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to errors or frauds may occur and not be detected.

Although our management has determined, and our independent registered public accountant has attested, that internal control over financial reporting was effective as of May 31, 2005, we cannot assure you that we or our independent registered public accountant will not identify a material weakness in our internal controls in the future. A material weakness in our internal control over financial reporting would require management and our independent registered public accountant to evaluate our internal controls as ineffective. If our internal control over financial reporting is not considered adequate, we may experience a loss of public confidence, which could have an adverse effect on our business and our stock price. If our internal controls over financial reporting do not comply with the requirements of Sarbanes, our business and stock price could be adversely affected.

We may be subject to laws and regulations that impose difficult and costly compliance requirements and subject us to potential liability and the loss of clients.

In connection with providing services to clients in certain regulated industries, such as the gaming and energy industries, we are subject to industry-specific regulations, including licensing and reporting requirements. Complying with these requirements is costly and, if we fail to comply, we could be prevented from rendering services to clients in those industries in the future.

It may be difficult for a third party to acquire our company, and this could depress our stock price.

Delaware corporate law and our amended and restated certificate of incorporation and bylaws contain provisions that could delay, defer or prevent a change of control of our company or our management. These provisions could also discourage proxy contests and make it difficult for you and other stockholders to elect directors and take other corporate actions. As a result, these provisions could limit the price that future investors are willing to pay for your shares. These provisions:

- authorize our board of directors to establish one or more series of undesignated preferred stock, the terms of which can be determined by the board of directors at the time of issuance;
- divide our board of directors into three classes of directors, with each class serving a staggered three-year term. Because the classification of the board of directors generally increases the difficulty of replacing a majority of the directors, it may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us and may make it difficult to change the composition of the board of directors;
- prohibit cumulative voting in the election of directors which, if not prohibited, could allow a minority stockholder holding a sufficient percentage of a class of shares to ensure the election of one or more directors;
- require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing;
- state that special meetings of our stockholders may be called only by the chairman of the board of directors, our chief executive officer, by the board of directors after a resolution is adopted by a majority of the total number of authorized directors, or by the holders of not less than 10% of our outstanding voting stock;
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting;
- provide that certain provisions of our certificate of incorporation can be amended only by supermajority vote of the outstanding shares, and that our bylaws can be amended only by supermajority vote of the outstanding shares or our board of directors;
- allow our directors, not our stockholders, to fill vacancies on our board of directors; and
- provide that the authorized number of directors may be changed only by resolution of the board of directors.

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The Company's board of directors has adopted a stockholder rights plan, which was described in the Company's May 31, 2005 Report on Form 10-K in Note 10-**Stockholders' Equity** of the "Notes to Consolidated Financial Statements". The existence of this rights plan may also have the effect of delaying, deferring or preventing a change of control of our company or our management by deterring acquisitions of our stock not approved by our Board of Directors.

Our clients may be confused by the change in our name to "Resources Global Professionals".

In January 2005, our operating company began doing business as Resources Global Professionals in order to better reflect our global capabilities and to avoid confusion with other companies using the name "Resources Connection" or some variation thereof. However, some clients and prospective clients may be confused by this name change or may be unaware that Resources Connection and Resources Global Professionals are the same company. While we believe that the name change enhances our brand identity, there is a risk that confusion over the name change could cause our financial results to suffer.

We may be unable to adequately protect our intellectual property rights, including our brand name. If we fail to adequately protect our intellectual property rights, the value of such rights may diminish and our results of operations and financial condition may be adversely affected.

We believe that establishing, maintaining and enhancing the Resources Global Professionals brand name is essential to our business. We have applied for U.S. and foreign registrations on this new service mark. We have previously obtained U.S. registrations on our Resources Connection service mark and puzzle piece logo, Registration No. 2,516,522 registered December 11, 2001; No. 2,524,226 registered January 1, 2002; and No. 2,613,873, registered September 3, 2002 as well as certain foreign registrations. We had been aware from time to time of other companies using the name "Resources Connection" or some variation thereof and this contributed to our decision to adopt the new operating company name of Resources Global Professionals. However, our rights to this service mark are not currently protected by any U.S. or foreign registration, and there is no guarantee that any of our pending applications for such registration (or any appeals thereof or future applications) will be successful. Although we are not aware of other companies using the name "Resources Global Professionals" at this time, there could be potential trade name or service mark infringement claims brought against us by the users of these similar names and marks and those users may have service mark rights that are senior to ours. If these claims were successful, we could be forced to cease using the service mark "Resources Global Professionals" even if an infringement claim is not brought against us. It is also possible that our competitors or others will adopt service names similar to ours or that our clients will be confused by another company using a name, service mark or trademark similar to ours, thereby impeding our ability to build brand identity. We cannot assure you that our business would not be adversely affected if confusion did occur or if we were required to change our name.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. At the end of the second quarter of fiscal 2006, we had approximately \$153.1 million of cash, highly liquid short-term investments and long-term investments. Securities that the Company has the ability and positive intent to hold to maturity are carried at amortized cost. These securities consist of commercial paper and government-agency bonds. Cost approximates market for these securities. All income generated from these current investments is recorded as interest income.

The earnings on these investments are subject to changes in interest rates, and to the extent interest rates were to decline, it would reduce our interest income.

Foreign Currency Exchange Rate Risk. Prior to fiscal 2004, our foreign operations were not significant to our overall operations, and our exposure to foreign currency exchange rate risk was low. However, as our strategy to continue expanding foreign operations progresses, more of our revenues will be derived from foreign operations denominated in the currency of the applicable markets.

For the quarter ended November 30, 2005, approximately 21% of the Company's revenues were generated outside of the United States. As a result, our operating results are subject to fluctuations in the exchange rates of foreign currencies in relation to the U.S. dollar. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates prevailing during the period. Thus, as the value of the U.S. dollar fluctuates relative to the currencies in our non-U.S. based operations, our reported results may vary.

Assets and liabilities of our non-U.S. based operations are translated into U.S. dollars at the exchange rate effective at the end of each monthly reporting period. Ninety-two percent (92%) of our balances of cash, short-term investments and long-term investments as of November 30, 2005 were denominated in U.S. dollars. The remaining 8% was comprised primarily of cash balances translated from Euros, British Pounds, Hong Kong dollars or Swedish Krona. The difference resulting from the translation each period of assets and liabilities of our non-U.S. based operations are recorded in stockholders' equity as a component of accumulated other comprehensive gain.

Although we intend to monitor our exposure to foreign currency fluctuations, including the use of financial hedging techniques if and when we may deem it appropriate, we cannot assure you that exchange rate fluctuations will not adversely affect our financial results in the future.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of second quarter of fiscal 2006, the Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of November 30, 2005 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There was no change in the Company's internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act, during the Company's quarter ended November 30, 2005 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any material legal proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

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

On October 11, 2005, the Company held its annual meeting of stockholders. The following matters were presented to stockholders for ratification:

1. The election of three directors. The vote for each director was as follows:

<u>Nominee</u>	<u>Shares For</u>	<u>Shares Withheld</u>
Stephen J. Giusto	45,070,322	1,086,469
John C. Shaw	44,171,279	1,985,512
Jolene Sykes Sarkis	44,173,379	1,983,412

The continuing directors, whose terms of office did not expire at the meeting, are Neil Dimick, Karen M. Ferguson, Julie Hill, Donald B. Murray, A. Robert Pisano, and Gerald Rosenfeld.

2. The ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm.

<u>Shares For</u>	<u>Against</u>	<u>Abstain</u>
46,092,598	59,006	5,187

Item 5. Other Information

1) On October 5, 2005, the Company completed the acquisition from James A. and Joanne M. Jones, Family Trust and 17101 Armstrong Holding, LLC of a 56,000 square foot office building at 17101 Armstrong, Irvine California for a cash purchase price of \$9.3 million. The building will serve as the corporate office of the Company beginning in fiscal 2007.

2) On December 9, 2005, the Company amended its \$10.0 million unsecured revolving credit facility with Bank of America. The amendment reduced the amount available under the facility to \$3.0 million and extended the term of the facility to December 1, 2007.

Item 6. Exhibits

a) Exhibits

- 10.25 Amendment No. 1 to Loan Agreement, dated October 25, 2004 by and among Resources Connection, Inc., Resources Connection LLC and Bank of America, N.A.*
- 10.26 Amendment No. 2 to Loan Agreement, dated December 9, 2005 by and among Resources Connection, Inc., Resources Connection LLC and Bank of America, N.A.*
- 10.27 Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate.*
- 31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RESOURCES CONNECTION, INC.

Date: January 5, 2006

/s/ Donald B. Murray

Donald B. Murray
President and Chief Executive Officer

Date: January 5, 2006

/s/ Stephen J. Giusto

Stephen J. Giusto
Chief Financial Officer, Executive Vice
President of Corporate Development and Secretary
(Principal Financial Officer)



AMENDMENT NO. 1 TO LOAN AGREEMENT

This Amendment No. 1 (the "Amendment") dated as of October 25, 2004, is among Bank of America, N.A. (the "Bank"), Resources Connection, Inc. ("Borrower 1"), and Resources Connection LLC ("Borrower 2") (Borrower 1 and Borrower 2 are sometimes referred to collectively as the "Borrowers" and individually as the "Borrower").

RECITALS

A. The Bank and the Borrowers entered into a certain Loan Agreement dated as of March 26, 2004 (together with any previous amendments, the "Agreement").

B. The Bank and the Borrowers desire to amend the Agreement.

AGREEMENT

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meaning given to them in the Agreement.

2. Amendments. The Agreement is hereby amended as follows:

2.1 Subparagraph 7.2(d) is deleted in its entirety.

3. Representations and Warranties. When the Borrowers sign this Amendment, each Borrower represents and warrants to the Bank that: (a) there is no event which is, or with notice or lapse of time or both would be, a default under the Agreement except those events, if any, that have been disclosed in writing to the Bank or waived in writing by the Bank, (b) the representations and warranties in the Agreement are true as of the date of this Amendment as if made on the date of this Amendment, (c) this Amendment does not conflict with any law, agreement, or obligation by which any Borrower is bound, and (d) this Amendment is within each Borrower's powers, has been duly authorized, and does not conflict with any of its organizational papers.

4. Effect of Amendment. Except as provided in this Amendment, all of the terms and conditions of the Agreement shall remain in full force and effect.

5. Counterparts. This Amendment may be executed in counterparts, each of which when so executed shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

6. FINAL AGREEMENT. BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THIS DOCUMENT REPRESENTS THE FINAL AGREEMENT BETWEEN PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF, (B) THIS DOCUMENT SUPERSEDES ANY COMMITMENT LETTER, TERM SHEET OR OTHER WRITTEN OUTLINE OF TERMS AND CONDITIONS RELATING TO THE SUBJECT MATTER HEREOF, UNLESS SUCH COMMITMENT LETTER, TERM SHEET OR OTHER WRITTEN OUTLINE OF TERMS AND CONDITIONS EXPRESSLY PROVIDES TO THE CONTRARY, (C) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (D) THIS DOCUMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.

This Amendment is executed as of the date stated at the beginning of this Amendment.

Borrower:

Resources Connection, Inc.

By: /s/ Stephen J. Giusto
Stephen J. Giusto, Secretary

Bank:

Bank of America, N.A.

By: _____
Title: _____

Borrower:

Resources Connection LLC

By: Resources Connection, Inc.,
a Delaware corporation, as Sole Member

By: /s/ Stephen J. Giusto
Stephen J. Giusto,
Executive V.P./CFO



AMENDMENT NO. 2 TO LOAN AGREEMENT

This Amendment No. 2 (the "Amendment") dated as of December 9, 2005, is among Bank of America, N.A. (the "Bank"), Resources Connection, Inc. ("Borrower 1"), and Resources Connection LLC ("Borrower 2") (Borrower 1 and Borrower 2 are sometimes referred to collectively as the "Borrowers" and individually as the "Borrower").

RECITALS

A. The Bank and the Borrowers entered into a certain Loan Agreement dated as of March 26, 2004 (together with any previous amendments, the "Agreement").

B. The Bank and the Borrowers desire to amend the Agreement.

AGREEMENT

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meaning given to them in the Agreement.
2. Amendments. The Agreement is hereby amended as follows:
 - 2.1 In Paragraph 1.1(a) of the Agreement, the amount "Ten Million and 00/100 Dollars (\$10,000,000.00)" is changed to "Three Million and 00/100 Dollars (\$3,000,000.00)".
 - 2.2 In Paragraph 1.2 of the Agreement, the date "December 1, 2005" is changed to "December 1, 2007".
 - 2.3 In Paragraph 1.6(b) of the Agreement, the amount "Ten Million and 00/100 Dollars (\$10,000,000.00)" is changed to "Three Million and 00/100 Dollars (\$3,000,000.00)".
 - 2.4 Paragraph 7.3 of the Agreement is deleted in its entirety.
 - 2.5 Paragraph 7.4 of the Agreement is amended to read in its entirety as follows:
 "7.4 Profitability. To maintain on a consolidated basis a positive net income after taxes for each annual accounting period, measured on a rolling four-quarter basis. For the purposes of this covenant, nonrecurring, extraordinary income/expenses and extraordinary gains/losses shall be excluded from the calculation."
 - 2.6 Paragraph 7.5 of the Agreement is deleted in its entirety.
 - 2.7 The heading of Paragraph 7.8 of the Agreement is amended to read in its entirety as follows:
 "Other liens. Not to create, assume, or allow, any security interest or lien (including judicial liens) on property any Borrower now or later owns, except:"

- 2.8 A new Paragraph 7.24 is added to the Agreement, which reads in its entirety as follows:
“7.24 Bank as Principal Depository. To maintain the Bank as its principal depository bank, including for the maintenance of business, cash management, operating and administrative deposit accounts.”
- 2.9 Paragraph 9.4 of the Agreement is amended to read in its entirety as follows”
- (a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a “Claim”). For the purposes of this arbitration provision only, the term “parties” shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this agreement.
 - (b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U.S. Code) (the “Act”). The Act will apply even though this agreement provides that it is governed by the law of a specified state. The arbitration will take place on an individual basis without resort to any form of class action.
 - (c) Arbitration proceedings will be determined in accordance with the Act, the then-current rules and procedures for the arbitration of financial services disputes of the American Arbitration Association or any successor thereof (“AAA”), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control. If AAA is unwilling or unable to (i) serve as the provider of arbitration or (ii) enforce any provision of this arbitration clause, any party to this agreement may substitute another arbitration organization with similar procedures to serve as the provider of arbitration.
 - (d) The arbitration shall be administered by AAA and conducted, unless otherwise required by law, in any U.S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed, judgment entered and enforced.
 - (e) The arbitrator(s) will give effect to statutes of limitation in determining any Claim and may dismiss the arbitration on the basis that the Claim is barred. For purposes of the application of the statute of limitations, the service on AAA under applicable AAA rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.
 - (f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to,

injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.

- (g) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property. In this case, all of the parties to this agreement must consent to submission of the Claim to arbitration. If both parties do not consent to arbitration, the Claim will be resolved as follows: The parties will designate a referee (or a panel of referees) selected under the auspices of AAA in the same manner as arbitrators are selected in AAA administered proceedings. The designated referee(s) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee (or presiding referee of the panel) will be an active attorney or a retired judge. The award that results from the decision of the referee(s) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645.
- (h) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.
- (i) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this agreement to arbitrate, to the extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This provision is a material inducement for the parties entering into this agreement.

3. **Representations and Warranties.** When the Borrowers sign this Amendment, each Borrower represents and warrants to the Bank that: (a) there is no event which is, or with notice or lapse of time or both would be, a default under the Agreement except those events, if any, that have been disclosed in writing to the Bank or waived in writing by the Bank (b) the representations and warranties in the Agreement are true as of the date of this Amendment as if made on the date of this Amendment, (c) this Amendment does not conflict with any law, agreement, or obligation by which any Borrower is bound, and (d) if the Borrower is a business entity or a trust, this Amendment is within each Borrower's powers, has been duly authorized, and does not conflict with any of its organizational papers.

4. **Effect of Amendment.** Except as provided in this Amendment, all of the terms and conditions of the Agreement shall remain in full force and effect.

5. **Counterparts.** This Amendment may be executed in counterparts, each of which when so executed shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

6. FINAL AGREEMENT. BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THIS DOCUMENT REPRESENTS THE FINAL AGREEMENT BETWEEN PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF, (B) THIS DOCUMENT SUPERSEDES ANY COMMITMENT LETTER, TERM SHEET OR OTHER WRITTEN OUTLINE OF TERMS AND CONDITIONS RELATING TO THE SUBJECT MATTER HEREOF, UNLESS SUCH COMMITMENT LETTER, TERM SHEET OR OTHER WRITTEN OUTLINE OF TERMS AND CONDITIONS EXPRESSLY PROVIDES TO THE CONTRARY, (C) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (D) THIS DOCUMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.

This Amendment is executed as of the date stated at the beginning of this Amendment.

BORROWER(S):

BANK:

Resources Connection, Inc.

Bank of America, N.A.

By: /s/ Stephen J. Giusto
Stephen J. Giusto, Secretary

By: /s/ Marlal Asadoorian
Authorized Signer

Resources Connection LLC

By: Resources Connection, Inc.
a Delaware Corporation, as Sole Member

By: /s/ Stephen J. Giusto
Stephen J. Giusto, Executive VP/CFO



STANDARD OFFER, AGREEMENT AND ESCROW
INSTRUCTIONS FOR PURCHASE OF REAL ESTATE
(Non-Residential)

AIR Commercial Real Estate Association

June 1, 2005
(Date for Reference Purposes)

1. Buyer.

1.1 Resources Connection, Inc. (a Delaware corporation), ("Buyer") hereby offers to purchase the real property, hereinafter described, from the owner thereof ("Seller") (collectively, the "Parties" or individually, a "Party"), through an escrow ("Escrow") to close 30 or 15 days after the waiver or expiration of the Buyer's Contingencies, ("Expected Closing Date") to be held by Chicago Title Insurance Company ("Escrow Holder") whose address is 16969 Von Karman, Irvine, CA 92606, Phone No. 949-263-2500, Facsimile No. 949-263-3544 upon the terms and conditions set forth in this agreement ("Agreement"). Buyer shall have the right to assign Buyer's rights hereunder, but any such assignment shall not relieve Buyer of Buyer's obligations herein unless Seller expressly releases Buyer.

1.2 The term "Date of Agreement" as used herein shall be the date when by execution and delivery (as defined in paragraph 20.2) of this document or a subsequent counteroffer thereto, Buyer and Seller have reached agreement in writing whereby Seller agrees to sell, and Buyer agrees to purchase, the Property upon terms accepted by both Parties.

2. Property.

2.1 The real property ("Property") that is the subject of this offer consists of (insert a brief physical description) an approximately 56,172 square foot two (2) store office building situated on approximately 2.5 acres of land is located in the City of Irvine, County of Orange State of California, is commonly known by the street address of 17101 Armstrong and is legally described as: TR6901 Lot 9 and Lot 10 (APN: 430-142-08).

2.2 If the legal description of the Property is not complete or is inaccurate, this Agreement shall be invalid and the legal description shall be completed or corrected to meet the requirements of Buyer or Buyer's designated representative ("Title Company"), which shall issue the title policy hereinafter described.

2.3 The Property includes, at no additional cost to Buyer, the permanent improvements thereon, including those items which pursuant to applicable law are a part of the property, as well as the following items, if any, owned by Seller and at present located on the Property: electrical distribution systems (power panel, bus ducting, conduits, disconnects, lighting fixtures); telephone distribution systems (lines, jacks and connections only); space heaters; heating, ventilating, air conditioning equipment ("HVAC"); air lines; fire sprinkler systems; security and fire detection systems; carpets; window coverings; wall coverings; and any other fixtures, equipment or appurtenances currently at or on the property. (collectively, the "Improvements").

2.4 The fire sprinkler monitor: [] is owner by Seller and included in the Purchase Price, [] is leased by Seller, and Buyer will need to negotiate a new lease with fire monitoring company, or [] ownership will be determined during Escrow.

2.5 Except as provided in Paragraph 2.3, the Purchase Price does not include Seller's personal property, furniture and furnishings, and none all of which shall be removed by Seller prior to Closing.

3. Purchase Price.

3.1 The purchase price ("Purchase Price") to be paid by Buyer to Seller for the Property shall be \$9,800,000.00, payable as follows:

Table with 2 columns: Description and Amount. Row 1: (a) Cash down payment... \$ 9,800,000.00. Row 2: (b) Amount of "New Loan" as defined in paragraph 5.1, if any: \$ _____. Row 3: (c) Buyer shall take title to the Property subject to and/or assume the following existing deed(s) of trust ("Existing Deed(s) of Trust") securing the existing promissory note(s) ("Existing Note(s)"): Row 4: (i) An Existing Note ("First Note") with an unpaid principal balance as of the Closing of approximately: \$ _____. Row 5: Said First Note is payable at \$ _____ per month, including interest at the rate of _____% per annum until paid (and/or the entire unpaid balance is due on _____. Row 6: (ii) An Existing Note ("Second Note") with an unpaid principal balance as of the Closing of approximately: \$ _____. Row 7: Said Second Note is payable at \$ _____ per month, including interest at the rate of _____% per annum until paid (and/or the entire unpaid balance is due on _____. Row 8: (d) Buyer shall give Seller a deed of trust ("Purchase Money Deed of Trust") on the property, to secure the promissory note of Buyer to Seller described in paragraph 6 ("Purchase Money Note") in the amount of: \$ _____. Row 9: Total Purchase Price: \$ 9,800,000.00.

(Strike if not applicable)

(Strike if not applicable)

(Strike if not applicable)

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3.2 If Buyer is taking title to the Property subject to, or assuming, an Existing Deed of Trust and such deed of trust permits the beneficiary to demand payment of fees including, but not limited to, points, processing fees, and appraisal fees as a condition to the transfer of the Property, Buyer agrees to pay such fees up to a maximum of 1.5% of the unpaid principal balance of the applicable Existing Note.

4. Deposits.

4.1 Buyer has delivered to Broker a check in the sum of \$ _____, payable to Escrow Holder, to be held by Broker until both Parties have executed this Agreement and the executed Agreement has been delivered to Escrow Holder, or Buyer shall deliver to Escrow Holder a check in the sum of \$200,000.00 when both Parties have executed this Agreement and the executed Agreement has been delivered to Escrow Holder. When cashed, the check shall be deposited into the Escrow's trust account to be applied toward the Purchase Price of the Property at the Closing. Should Buyer and Seller not enter into an agreement for purchase and sale, Buyer's check or funds shall, upon request by Buyer, be promptly returned to Buyer.

4.2 Additional deposits:

(a) ~~Within 5 business days after the Date of Agreement, Buyer shall deposit with Escrow Holder the additional sum of \$ _____ to be applied to the Purchase Price at the Closing.~~

(b) ~~Within 5 business days after the contingencies discussed in paragraph 9.1 (a) through (k) are approved or waived, Buyer shall deposit with Escrow Holder the additional sum of \$ _____ to be applied to the Purchase Price at the Closing.~~

4.3 Escrow Holder shall deposit the funds deposited with it by Buyer pursuant to paragraph 4.1 and 4.2 (collectively the "Deposit"), in a State or Federally chartered bank in an interest bearing account whose term is appropriate and consistent with the timing requirements of this transaction. The interest therefrom shall accrue to the benefit of Buyer, who hereby acknowledges that there may be penalties or interest forfeitures if the applicable instrument is redeemed prior to its specified maturity. Buyer's Federal Tax Identification Number is 33-0832424. NOTE: Such interest bearing account cannot be opened until Buyer's Federal Tax Identification Number is provided.

5. Financing Contingency. ~~(Strike if not applicable)~~

~~5.1 This offer is contingent upon Buyer obtaining from an insurance company, financial institution or other lender, a commitment to lend to Buyer a sum equal to at least _____% of the Purchase Price, at terms reasonably acceptable to Buyer. Such loan ("New loan") shall be secured by a first deed of trust or mortgage on the Property. If this Agreement provides for Seller to carry back junior financing, then Seller shall have the right to approve the terms of the New Loan. Seller shall have 7 days from receipt of the commitment setting forth the proposed terms if the New Loan to approve or disapprove of such proposed terms. If Seller fails to notify Escrow Holder, in writing, of the disapproval within said 7 days it shall be conclusively presumed that Seller has approved the terms of the New Loan.~~

~~5.2 Buyer hereby agrees to diligently pursue obtaining the New Loan. If Buyer shall fail to notify its Broker, ESCROW HOLDER and Seller, in writing within _____ days following the Date of Agreement, that the New Loan has not been obtained, it shall be conclusively presumed that Buyer has either obtained said New Loan or has waived this New Loan contingency.~~

~~5.3 If, after due diligence, Buyer shall notify its Broker, Escrow Holder and Seller, in writing, within the time specified in paragraph 5.2 hereof, that Buyer has not obtained said New Loan, this Agreement shall be terminated, and buyer shall be entitled to the prompt return of the Deposit, plus any interest earned thereon, less only Escrow Holder and Title Company fees and costs, which buyer shall pay.~~

6. Seller Financing (Purchase Money Note). ~~(Strike if not applicable)~~

~~6.1 The Purchase Money Note shall provide for interest on unpaid principal at the rate of _____% per annum, with principal and interest paid as follows: _____~~

~~The Purchase Money Note and Purchase Money Deed of Trust shall be on the current forms commonly used by Escrow Holder, and be junior and subordinates only to the Existing Note(s) and/or the New Loan expressly called for by this Agreement.~~

~~6.2 The Purchase Money Note and/or the Purchase Money Deed of Trust shall contain provisions regarding the following (see also paragraph 10.3(b)):~~

~~(a) Prepayment. Principal may be prepaid in whole or in part at any time without penalty, at the option of the Buyer.~~

~~(b) Late charge. A late charge of 6% shall be payable with respect to any payment of principal, interest, or other charges, not made within 10 days after it is due.~~

~~(c) Due On Sale. In the event the Buyer sells or transfers title to the Property or any portion thereof, then the Seller may, at Seller's option, require the entire unpaid balance of said Note to be paid in full.~~

~~6.3 If the Purchase Money Deed of Trust is to be subordinate to other financing, Escrow Holder shall, at Buyer's expense prepare and record on Seller's behalf a request for notice of default and/or sale with regard to each mortgage or deed of trust to which it will be subordinate.~~

~~6.4 WARNING: CALIFORNIA LAW DOES NOT ALLOW DEFICIENCY JUDGEMENTS ON SELLER FINANCING. IF BUYER ULTIMATELY DEFAULTS ON THE LOAN, SELLER'S SOLE REMEDY IS TO FORECLOSE ON THE PROPERTY.~~

7. Real Estate Brokers.

7.1 The following real estate broker(s) ("Brokers") and brokerage relationships exist in this transaction and are consented to by the Parties (check the applicable boxes):

Lee & Associates represents Seller exclusively ("Seller's Broker");

Thomas B Gibson, Inc. dba The Gibson Company represents Buyer exclusively ("Buyer's Broker"); or

_____ represents both Seller and Buyer ("Dual Agency")

The Parties acknowledge that Brokers are the procuring cause of this Agreement See paragraph 24 regarding the nature of a real estate agency relationship. Buyer shall use the services of Buyer's Broker exclusively in connection with any and all negotiations and offers with respect to the Property for a period of 1 year from the date inserted for reference purposes at the top of page 1.

7.2 Buyer and Seller each represent and warrant to the other that he/she/it has had no dealings with any person, firm, broker or finder in connection with the negotiation of this Agreement and/or the consummation of the purchase and sale contemplated herein, other than the Brokers named in paragraph 7.1, and no broker or other person, firm or entity, other than said Brokers is/are entitled to any commission or finder's fee in connection with this transaction as the result of

any dealings or acts of such Party. Buyer and Seller do each hereby agree to indemnify, defend, protect and hold the other harmless from and against any costs, expenses or liability for compensation, commission or charges which may be claimed by any broker, finder or other similar party, other than said named Brokers by reason of any dealings or act of the indemnifying Party.

8. Escrow and Closing.

8.1 Upon acceptance hereof by Seller, this Agreement, including any counteroffers incorporated herein by the Parties, shall constitute not only the agreement of purchase and sale between Buyer and Seller, but also instructions to Escrow Holder for the consummation of the Agreement through the Escrow. Escrow Holder shall not prepare any further escrow instructions restating or amending the Agreement unless specifically so instructed by the Parties or a Broker herein. Subject to the reasonable approval of the Parties, Escrow Holder may, however, include its standard general escrow provisions.

8.2 As soon as practical after the receipt of this Agreement and any relevant counteroffers, Escrow Holder shall ascertain the Date of Agreement as defined in paragraphs 1.2 and 20.2 and advise the Parties and Brokers, in writing, of the date ascertained.

8.3 Escrow Holder is hereby authorized and instructed to conduct the Escrow in accordance with this Agreement, applicable law and custom and practice of the community in which the Escrow Holder is located, including any reporting requirements of the Internal Revenue Code. In the event of a conflict between the law of the state where the Property is located and the law of the state where the Escrow Holder is located, the law of the state where the Property is located shall prevail.

8.4 Subject to satisfaction of the contingencies herein described, Escrow Holder shall close this escrow (the “**Closing**”) by recording a general warranty deed (a grant deed in California) and the other documents required to be recorded, and by disbursing the funds and documents in accordance with this Agreement.

8.5 Buyer and Seller shall each pay one-half of the Escrow Holder’s charges and Seller shall pay the usual recording fees and any required documentary transfer taxes. Seller shall pay the premium for a standard coverage owner’s or joint protection policy of title insurance.

8.6 Escrow Holder shall verify that all of Buyer’s contingencies have been satisfied or waived prior to Closing. The matters contained in paragraphs 9.1 subparagraphs (b), (c), (d), (e), (g), (i), (n), and (o), 9.4, 9.5, 12, 13, 14, 16, 18, 20, 21, 22, and 24 are, however, matters of agreement between the Parties only and are not instructions to Escrow Holder.

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8.7 If this transaction is terminated for non-satisfaction and non-waiver of a Buyer's Contingency, as defined in paragraph 9.2, then neither of the Parties shall thereafter have any liability to the other under this Agreement, except to the extent of a breach of any affirmative covenant or warranty in this Agreement. In the event of such termination, Buyer shall be promptly refunded all funds deposited by Buyer with Escrow Holder, less only Title Company and Escrow Holder cancellation fees and costs, all of which shall be Buyer's obligation.

8.8 The Closing shall occur on the Expected Closing Date, or as soon thereafter as the Escrow is in condition for Closing; provided, however, that if the Closing does not occur by the Expected Closing Date and said Date is not extended by mutual instructions of the Parties, a Party not then in default under this Agreement may notify the other Party, Escrow Holder, and Brokers, in writing that, unless the Closing occurs within 5 business days following said notice, the Escrow shall be deemed terminated without further notice or instructions.

8.9 Except as otherwise provided herein, the termination of Escrow shall not relieve or release either Party from any obligation to pay Escrow Holder's fees and costs or constitute a waiver, release or discharge of any breach or default that has occurred in the performance of the obligations, agreements, covenants or warranties contained therein.

8.10 If this Escrow is terminated for any reason other than Seller's breach or default, then at Seller's request, and as a condition to the return of Buyer's deposit, Buyer shall within 5 days after written deliver to Seller, at no charge, copies of all surveys, engineering studies, soil reports, maps, master plans, feasibility studies and other similar items prepared by or for Buyer that pertain to the Property. Provided, however, that Buyer shall not be required to deliver any such report if the written contract which Buyer entered into with the consultant who prepared such report specifically forbids the dissemination of the report to others.

9. Contingencies to Closing.

9.1 The Closing of this transaction is contingent upon the satisfaction or waiver of the following contingencies. **IF BUYER FAILS TO NOTIFY ESCROW HOLDER, IN WRITING, OF THE DISAPPROVAL OF ANY OF SAID CONTINGENCIES WITHIN THE TIME SPECIFIED THEREIN, IT SHALL BE CONCLUSIVELY PRESUMED THAT BUYER HAS APPROVED SUCH ITEM, MATTER OR DOCUMENT.** Buyer's conditional approval shall constitute disapproval, unless provision is made by the Seller within the time specified therefore by the Buyer in such conditional approval or by this Agreement, whichever is later, for the satisfaction of the condition imposed by the Buyer. Escrow Holder shall promptly provide all Parties with copies of any written disapproval or conditional approval which it receives. With regard to subparagraphs (a) through (l) the pre-printed time periods shall control unless a different number of days is inserted in the spaces provided.

(a) *Disclosure.* Seller shall make to Buyer, through escrow, all of the applicable disclosures required by law (See AIR Commercial Real Estate Association ("AIR") standard for entitled "Seller's Mandatory Disclosure Statement") and provide Buyer with a completed Property Information Sheet ("**Property Information Sheet**") concerning the Property, duly executed by or on behalf of Seller in the current form or equivalent to that published by the AIR within 10 ~~or~~ _____ days following the Date of Agreement. Buyer has 10 days from the receipt of said disclosures to approve or disapprove the matters disclosed.

(b) *Physical Inspection.* Buyer has ~~10 or~~ 30 days from the receipt of the Property Information Sheet or the Date of Agreement, whichever is later, to satisfy itself with regard to the physical aspects and size of the Property.

(c) *Hazardous Substance Conditions Report.* Buyer has 30 ~~or~~ _____ days from the receipt of the Property Information Sheet or the Date of Agreement, whichever is later, to satisfy itself with regard to the environmental aspects of the Property. Seller recommends that Buyer obtain a Hazardous Substance Conditions Report concerning the Property and relevant adjoining properties. Any such report shall be paid for by Buyer. A "**Hazardous Substance**" for purposes of this Agreement is defined as any substance whose nature and/or quantity of existence, use, manufacture, disposal or effect, render it subject to Federal, state or local regulation, investigation, remediation or removal as potentially injurious to public health or welfare. A "**Hazardous Substance Condition**" for purposes of this Agreement is defined as the existence on, under or relevantly adjacent to the Property of a Hazardous Substance that would require remediation and/or removal under applicable Federal, state or local law.

(d) *Soil Inspection.* Buyer has 30 ~~or~~ _____ days from the receipt of the Property Information Sheet or the Date of Agreement, whichever is later, to satisfy itself with regards to the condition of the soils on the Property. Seller recommends that Buyer obtain a soil test report. Any such report shall be paid for by Buyer. Seller shall provide Buyer copies of any soils report that Seller may have within 10 days of the Date of Agreement.

(e) *Governmental Approvals.* Buyer has 30 ~~or~~ _____ days from the Date of Agreement to satisfy itself with regard to approvals and permits from governmental agencies or departments which have or may have jurisdiction over the Property and which Buyer deems necessary or desirable in connection with its intended use of the Property, including, but not limited to, permits and approvals required with respect to zoning, planning, building and safety, fire, police, handicapped and Americans with Disabilities Act requirements, transportation and environmental matters.

(f) *Conditions of Title.* Escrow Holder shall cause a current commitment for title insurance ("**Title Commitment**") concerning the Property issued by the Title Company, as well as legible copies of all documents referred to in the Title Commitment ("**Underlying Documents**") to be delivered to Buyer within 10 ~~or~~ _____ days following the Date of Agreement. Buyer has 10 days from the receipt of the Title Commitment and Underlying Documents to satisfy itself with regard to the condition of title. The disapproval of Buyer of any monetary encumbrance, which by the terms of this Agreement is not to remain against the Property after the Closing, shall not be considered a failure of this contingency, as Seller shall have the obligation, at Seller's expense, to satisfy and remove such disapproved monetary encumbrance at or before the Closing.

(g) *Survey.* Buyer has 30 ~~or~~ _____ days from the receipt of the Title Commitment and Underlying Documents to satisfy itself with regard to any ALTA title supplement based upon a survey prepared to American Land Title Association ("**ALTA**") standards for an owner's policy by a licensed surveyor, showing the legal description and boundary lines of the Property, any easements of record, and any improvements, poles, structures and things located within 10 feet of either side of the Property boundary lines. Any such survey shall be prepared at Buyer's direction and expense. If Buyer has obtained a survey and approved the ALTA title supplement, Buyer may elect within the period allowed for Buyer's approval of a survey to have an ALTA extended coverage owner's form of title policy, in which event Buyer shall pay any additional premium attributable thereto.

(h) *Existing Leases and Tenancy Statements.* Seller shall within 10 ~~or~~ _____ days of the Date of Agreement provide both Buyer and Escrow Holder with legible copies of all leases, subleases or rental arrangements (collectively, "**Existing Leases**") affecting the Property, and with a tenancy statement ("**Estoppel Certificate**") in the latest form or equivalent to that published by the AIR, executed by Seller and/or each tenant and subtenant of the Property. Seller shall use its best efforts to have each tenant complete and execute an Estoppel Certificate. If any tenant fails or refuses to provide an Estoppel Certificate then Seller shall complete and execute an Estoppel Certificate for that tenancy. Buyer has 10 days from the receipt of said Existing Leases and Estoppel Certificates to satisfy itself with regard to the Existing Leases and any other tenancy issues.

(i) *Other Agreements.* Seller shall within 10 ~~or~~ _____ days of the Date of Agreement provide Buyer with legible copies of all other agreements ("**Other Agreements**") known to Seller that will effect the Property after Closing. Buyer has 10 days from the receipt of said Other Agreements to satisfy itself with regard to such Agreements.

(j) *Financing.* ~~If paragraph 5 hereof dealing with a financing contingency has not been stricken, the satisfaction or waiver of such New Loan contingency.~~

~~(k) Existing Notes. If paragraph 3.1(c) has not been stricken, Seller shall within 10 or _____ days of the Date of Agreement provide Buyer with legible copies of the Existing Notes, Existing Deeds of Trust and related agreements (collectively, "Loan Documents") to which the Property will remain subject after the Closing. Escrow Holder shall promptly request from the holders of the Existing Notes a beneficiary statement ("Beneficiary Statement") confirming: (1) the amount of the unpaid principal balance, the current interest rate, and the date to which interest is paid, and (2) the nature and amount of any impounds held by the beneficiary in connection with such loan. Buyer has 10 or _____ days from the receipt of the Loan Documents and Beneficiary Statements to satisfy itself with regard to such financing. Buyer's obligation to close is conditioned upon Buyer being able to purchase the Property without acceleration or change in the terms of any Existing Notes or charges to Buyer except as otherwise provided in this Agreement or approved by Buyer, provided, however, Buyer shall pay the transfer fee referred to in paragraph 3.2 hereof.~~

(l) *Personal Property.* In the event that any personal property is included in the Purchase Price, Buyer has 10 or _____ days from the Date of Agreement to satisfy itself with regard to the title condition of such personal property. Seller recommends that Buyer obtain a UCC-1 report. Any such report shall be paid for by Buyer. Seller shall provide Buyer copies of any liens or encumbrances affecting such personal property that it is aware of within 10 or _____ days of the Date of Agreement.

(m) *Destruction, Damage or Loss.* There shall not have occurred prior to the Closing, a destruction of, or damage or loss to, the Property or any portion thereof, from any cause whatsoever, which would cost more than \$10,000.00 to repair or cure. If the cost of repair or cure is \$10,000.00 or less, Seller shall repair or cure the loss prior to the Closing. Buyer shall have the option, within 10 days after receipt of written notice of a loss costing more than \$10,000.00 to repair or cure, to either terminate this transaction or to purchase the Property notwithstanding such loss, but without deduction or offset against the Purchase Price. If the cost to repair or cure is more than \$10,000.00 and Buyer does not elect to terminate this transaction, Buyer shall be entitled to any insurance proceeds applicable to such loss. Unless otherwise notified in writing, Escrow Holder shall assume no such destruction, damage or loss has occurred prior to Closing.

(n) *Material Change.* Buyer shall have 10 days following receipt of written notice of a Material Change within which to satisfy itself with regard to such change. "**Material Change**" shall mean a change in the status of the use, occupancy, tenants, or condition of the Property that occurs after the date of this offer and prior to the Closing. Unless otherwise notified in writing, Escrow Holder shall assume that no Material Change has occurred prior to the Closing.

(o) *Seller Performance.* The delivery of all documents and the due performance by Seller of each and every undertaking and agreement to be performed by Seller under this Agreement.

(p) *Warranties*. That each representation and warranty of Seller herein be true and correct as of the Closing. Escrow Holder shall assume that this condition has been satisfied unless notified to the contrary in writing by any Party prior to the Closing.

(q) *Brokerage Fee*. Payment at the Closing of such brokerage fee as is specified in this Agreement or later written instructions to Escrow Holder executed by Seller and Brokers ("**Brokerage Fee**"). It is agreed by the Parties and Escrow Holder that Brokers are a third party beneficiary of this Agreement insofar as the Brokerage Fee is concerned, and that no change shall be made with respect to the payment of the Brokerage Fee specified in this Agreement, without the written consent of Brokers.

9.2 All of the contingencies specified in subparagraphs (a) through (p) of paragraph 9.1 are for the benefit of, and may be waived by, Buyer, and may be elsewhere herein referred to as "**Buyer's Contingencies**."

9.3 If any Buyer's Contingency or any other matter subject to Buyer's approval is disapproved as provided for herein in a timely manner ("**Disapproved Item**"). Seller shall have the right within 10 days following the receipt of notice of Buyer's disapproval to elect to cure such Disapproved Item prior to the Expected Closing Date ("**Seller's Election**"). Seller's failure to give to Buyer within such period, written notice of Seller's commitment to cure such Disapproved Item on or before the Expected Closing Date shall be conclusively presumed to be Seller's Election not to cure such Disapproved Item. If Seller elects, either by written notice or failure to give written notice, not to cure a Disapproved Item, Buyer shall have the election, within 10 days after Seller's Election to either accept title to the Property subject to such Disapproved Item, or to terminate this transaction. Buyer's failure to notify Seller in writing of Buyer's election to accept title to the Property subject to the Disapproved Item without deduction or offset shall constitute Buyer's election to terminate this transaction. Unless expressly provided otherwise herein, Seller's right to cure shall not apply to the remediation of Hazardous Substance Conditions or to the Financing Contingency. Unless the Parties mutually instruct otherwise, if the time periods for the satisfaction of contingencies or for Seller's and Buyer's said Elections would expire on a date after the Expected Closing Date, the Expected Closing Date shall be deemed extended for 3 business days following the expiration of: (a) the applicable contingency period(s), (b) the period within which the Seller may elect to cure the Disapproved Item, or (c) if Seller elects not to cure, the period within which Buyer may elect to proceed with this transaction, whichever is later.

9.4 Buyer understands and agrees that until such time as all Buyer's Contingencies have been satisfied or waived, Seller and/or its agents may solicit, entertain and/or accept back-up offers to purchase the Property.

9.5 The Parties acknowledge that extensive local, state and Federal legislation establish broad liability upon owners and/or users of real property for the investigation and remediation of Hazardous Substances. The determination of the existence of a Hazardous Substance Condition and the evaluation of the impact of such a condition are highly technical and beyond the expertise of Brokers. The Parties acknowledge that they have been advised by Brokers to consult their own technical and legal experts with respect to the possible presence of Hazardous Substances on the Property or adjoining properties, and Buyer and Seller are not relying upon any investigation by or statement of Brokers with respect thereto. The Parties hereby assume all responsibility for the impact of such Hazardous Substances upon their respective interests herein.

10. Documents Required at or before Closing:

10.1 Five days prior to the Closing date Escrow Holder shall obtain an updated Title Commitment concerning the Property from the Title Company and provide copies thereof to each of the Parties.

10.2 Seller shall deliver to Escrow Holder in time for delivery to Buyer at the Closing:

- (a) Grant or general warranty deed, duly executed and in recordable form, conveying fee title to the Property to Buyer.
- (b) If applicable, the Beneficiary Statements concerning Existing Note(s).
- (c) If applicable, the Existing Leases and other Agreements together with duly executed assignments thereof by Seller and Buyer. The assignment of Existing Leases shall be on the most recent Assignment and Assumption of Lessor's Interest in Lease form published by the AIR or its equivalent.
- (d) If applicable, Estoppel Certificates executed by Seller and/or the tenant(s) of the Property.
- (e) An affidavit executed by Seller to the effect that Seller is not a "foreign person" within the meaning of Internal Revenue Code Section 1445 or successor statutes. If Seller does not provide such affidavit in form reasonably satisfactory to Buyer at least 3 business days prior to the Closing, Escrow Holder shall at the Closing deduct from Seller's proceeds and remit to Internal Revenue Service such sum as is required by applicable Federal law with respect to purchases from foreign sellers.
- (f) If the Property is located in California, an affidavit executed by Seller to the effect that Seller is not a "nonresident" within the meaning of California Revenue and Tax Code Section 18662 or successor statutes. If Seller does not provide such affidavit in form reasonably satisfactory to Buyer at least 3 business days prior to the Closing, Escrow Holder shall at the Closing deduct from Seller's proceeds and remit to the Franchise Tax Board such sum as is required by such statute.
- (g) If applicable, a bill of sale, duly executed, conveying title to any included personal property to Buyer.
- (h) If the Seller is a corporation, a duly executed corporate resolution authorizing the execution of this Agreement and the sale of the Property.

10.3 Buyer shall deliver to Seller through Escrow:

- (a) The cash portion of the Purchase Price and such additional sums as are required of Buyer under this Agreement shall be deposited by Buyer with Escrow Holder, by federal funds wire transfer, or any other method acceptable to Escrow Holder as immediately collectable funds, no later than 2:00 P.M. on the business day prior to the Expected Closing Date.
- (b) If a Purchase Money Note and Purchase Money Deed of Trust are called for by this Agreement, the duly executed originals of those documents, the Purchase Money Deed of Trust being in recordable form, together with evidence of fire insurance on the improvements in the amount of the full replacement cost naming Seller as a mortgage loss payee, and a real estate tax service contract (at Buyer's expense), assuring Seller of notice of the status of payment of real property taxes during the life of the Purchase Money Note.
- (c) The Assignment and Assumption of Lessor's Interest in Lease form specified in paragraph 10.2(c) above, duly executed by Buyer.
- (d) Assumptions duly executed by Buyer of the obligations of Seller that accrue after Closing under any Other Agreements.
- (e) If applicable, a written assumption duly executed by Buyer of the loan documents with respect to Existing Notes.
- (f) If the Buyer is a corporation, a duly executed corporate resolution authorizing the execution of this Agreement and the purchase of the Property.

10.4 At Closing, Escrow Holder shall cause to be issued to Buyer a standard coverage (or ALTA extended, if elected pursuant to 9.1(g)) owner's form policy of title insurance effective as of the Closing, issued by the Title Company in the full amount of the Purchase Price, insuring title to the Property vested in Buyer, subject only to the exceptions approved by Buyer. In the event there is a Purchase Money Deed of Trust in this transaction, the policy of title insurance shall be a joint protection policy insuring both Buyer and Seller.

IMPORTANT: IN A PURCHASE OR EXCHANGE OF REAL PROPERTY, IT MAY BE ADVISABLE TO OBTAIN TITLE INSURANCE IN CONNECTION WITH THE CLOSE OF ESCROW SINCE THERE MAY BE PRIOR RECORDED LIENS AND ENCUMBRANCES WHICH AFFECT YOUR INTEREST IN THE PROPERTY BEING ACQUIRED. A NEW POLICY OF TITLE INSURANCE SHOULD BE OBTAINED IN ORDER TO ENSURE YOUR INTEREST IN THE PROPERTY THAT YOU ARE ACQUIRING.

11. Prorations and Adjustments.

11.1 *Taxes.* Applicable real property taxes and special assessment bonds shall be prorated through Escrow as of the date of the Closing, based upon the latest tax bill available. The Parties agree to prorate as of the Closing any taxes assessed against the Property by supplemental bill levied by reason of events occurring prior to the Closing. Payment of the prorated amount shall be made promptly in cash upon receipt of a copy of any supplemental bill.

11.2 *Insurance.* **WARNING:** Any insurance which Seller may have maintained will terminate on the Closing. Buyer is advised to obtain appropriate insurance to cover the property.

11.3 *Rentals, Interest and Expenses.* Scheduled rentals, interest on Existing Notes, utilities, and operating expenses shall be prorated as of the date of Closing. The Parties agree to promptly adjust between themselves outside of Escrow any rents received after the Closing.

11.4 *Security Deposit.* Security Deposits held by Seller shall be given to Buyer as a credit to the cash required of Buyer at the Closing.

11.5 *Post Closing Matters.* Any item to be prorated that is not determined or determinable at the Closing shall be promptly adjusted by the Parties by appropriate cash payment outside of the Escrow when the amount due is determined.

11.6 *Variations in Existing Note Balances.* In the event that Buyer is purchasing the Property subject to an Existing Deed of Trust(s), and in the event that a Beneficiary Statement as to the applicable Existing Note(s) discloses that the unpaid principal balance of such Existing Note(s) at the closing will be more or less than the amount set forth in paragraph 3.1(c) hereof ("**Existing Note Variation**"), then the Purchase Money Note(s) shall be reduced or increased by an amount equal to such Existing Note Variation. If there is to be no Purchase Money Note, the cash required at the Closing per paragraph 3.1(a) shall be reduced or increased by the amount of such Existing Note Variation.

11.7 *Variations in New Loan Balance.* In the event Buyer is obtaining a New Loan and the amount ultimately obtained exceeds the amount set forth in paragraph 5.1, then the amount of the Purchase Money Note, if any, shall be reduced by the amount of such excess.

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12. Representation and Warranties of Seller and Disclaimers.

12.1 Seller's warranties and representations shall survive the Closing and delivery of the deed for a period of 3 years, and, are true, material and relied upon by Buyer and Brokers in all respects. Seller hereby makes the following warranties and representations to Buyer and Brokers:

(a) *Authority of Seller.* Seller is the owner of the Property and/or has the full right, power and authority to sell, convey and transfer the Property to Buyer as provided herein, and to perform Seller's obligations hereunder.

(b) *Maintenance During Escrow and Equipment Condition At Closing.* Except as otherwise provided in paragraph 9.1(m) hereof, Seller shall maintain the Property until the Closing in its present condition, ordinary wear and tear excepted. The HVAC, plumbing, elevators, loading doors and electrical systems shall be in good operating order and condition at the time of Closing.

(c) *Hazardous Substances/Storage Tanks.* Seller has no knowledge, except as otherwise disclosed to Buyer in writing, of the existence or prior existence on the Property of any Hazardous Substance, nor of the existence or prior existence of any above or below ground storage tank.

(d) *Compliance.* Seller has no knowledge of any aspect or condition of the Property which violates applicable laws, rules, regulations, codes or covenants, conditions or restrictions, or of improvements or alterations made to the Property without a permit where one was required, or any unfulfilled order or directive of any applicable governmental agency or casualty insurance company requiring any investigation, remediation, repair, maintenance or improvement be performed on the Property.

(e) *Changes in Agreements.* Prior to the Closing, Seller will not violate or modify any Existing Lease or Other Agreement, or create any new leases or other agreements affecting the Property, without Buyer's written approval, which approval will not be unreasonably withheld.

(f) *Possessory Rights.* Seller has no knowledge that anyone will, at the Closing, have any right to possession of the Property except as disclosed by this Agreement or otherwise in writing to Buyer.

(g) *Mechanics' Liens.* There are no unsatisfied mechanics' or materialmen's lien rights concerning the Property.

(h) *Actions, Suits or Proceedings.* Seller has no knowledge of any actions, suits or proceedings pending or threatened before any commission, board, bureau, agency, arbitrator, court or tribunal that would affect the Property or the right to occupy or utilize same.

(i) *Notice of Changes.* Seller will promptly notify Buyer and Brokers in writing of any Material Change (see paragraph 9.1(n)) affecting the Property that becomes known to Seller prior to the Closing.

(j) *No Tenant Bankruptcy Proceedings.* Seller has no notice or knowledge that any tenant of the property is the subject of a bankruptcy or insolvency proceeding.

(k) *No Seller Bankruptcy Proceedings.* Seller is not the subject of a bankruptcy, insolvency or probate proceeding.

(l) *Personal Property.* Seller has no knowledge that anyone will, at the Closing, have any right to possession of any personal property included in the Purchase Price nor knowledge of any liens or encumbrances affecting such personal property, except as disclosed by this Agreement or otherwise in writing to Buyer.

12.2 Buyer hereby acknowledge that, except as otherwise stated in this Agreement, Buyer is purchasing the Property in its existing condition and will, by the time called for herein, make or have waived all inspections of the Property Buyer believes are necessary to protect its own interest in, and its contemplated use of, the Property. The Parties acknowledge that, except as otherwise stated in this Agreement, no representations, inducements, promises, agreements, assurance, oral or written, concerning the Property, or any aspect of the occupational safety and health laws, Hazardous Substance laws, or any other act, ordinance or law, have been made by either party or Brokers, or relied upon by either Party hereto.

12.3 In the event that Buyer learns that a Seller representation or warranty might be untrue prior to the Closing, and Buyer elects to purchase the Property anyway then, and in that event, Buyer waives any right that it may have to bring an action or proceeding against Seller or Brokers regarding said representation or warranty.

12.4 Any environmental reports, soils reports, surveys, and other similar documents which were prepared by third party consultants and provided to Buyer by Seller or Seller's representatives, have been delivered as an accommodation to Buyer and without any representation or warranty as to the sufficiency, accuracy, completeness, and/or validity of said documents, all of which Buyer relies on at its own risk. Seller believes said documents to be accurate, but Buyer is advised to retain appropriate consultants to review said documents and investigate the Property.

13. Possession.

Possession of the Property shall be given to Buyer at the Closing subject to the rights of tenants under Existing Leases.

14. Buyer's Entry.

At any time during the Escrow period, buyer, and its agents and representatives, shall have the right at reasonable times and subject to rights of tenants, to enter upon the Property for the purpose of making inspections and tests specified in this Agreement. No destructive testing shall be conducted, however, without Seller's prior approval, which shall not be unreasonably withheld. Following any such entry or work, unless otherwise directed in writing by Seller, Buyer shall return the Property to the condition it was in prior to such entry or work, including the recompaction or removal of any disrupted soil or material as Seller may reasonably direct. All such inspections and tests and any other work conducted or materials furnished with respect to the Property by or for Buyer shall be paid for by Buyer as and when due and Buyer shall indemnify, defend, protect and hold harmless Seller and the Property of and from any and all claims, liabilities, losses, expenses (including reasonable attorney's fees), damages, including those for injury to person or property, arising out of or relating to any such work or materials or the acts or omissions of Buyer, its agents or employees in connection therewith.

15. Further Documents and Assurances.

The Parties shall each, diligently and in good faith, undertake all actions and procedures reasonably required to place the Escrow in condition for Closing as and when required by this Agreement. The Parties agree to provide all further information, and to execute and deliver all further documents, reasonably required by Escrow Holder or the Title Company.

16. Attorneys' Fees.

If any Party or Broker brings an action or proceeding (including arbitration) involving the Property whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorney's fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "**Prevailing Party**" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorney's fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred.

17. Prior Agreements/Amendments.

17.1 This Agreement supersedes any and all prior agreements between Seller and Buyer regarding the Property.

17.2 Amendments to this Agreement are effective only if made in writing and executed by Buyer and seller.

18. Broker's Rights.

18.1 If this sale is not consummated due to the default of either the Buyer or Seller, the defaulting Party shall be liable to and shall pay to Brokers the Brokerage Fee that Brokers would have received had the sale been consummated. If Buyer is the defaulting party, payment of said Brokerage Fee is in addition to any obligation with respect to liquidated or other damages.

18.2 Upon the Closing, Brokers are authorized to publicize the facts of this transaction.

19. Notices.

19.1 Whenever any Party, Escrow Holder or Brokers herein shall desire to give or serve any notice, demand, request, approval, disapproval or other communication, each such communication shall be in writing and shall be delivered personally, by messenger or by mail, postage prepaid, to the address set forth in this Agreement or by facsimile transmission.

19.2 Service of any such communication shall be deemed made on the date of actual receipt if personally delivered. Any such communication sent by regular mail shall be deemed given 48 hours after the same is mailed. Communications sent by United State Express Mail or overnight courier that guarantee next day delivery shall be deemed delivered 24 hours after delivery of the same to the Postal Service or courier. Communications transmitted by facsimile transmission shall be deemed delivered upon telephonic confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If such communication is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

19.3 Any Party or Broker hereto may from time to time, by notice in writing, designate a different address to which, or a different person or additional persons to whom, all communications are thereafter to be made.

20. Duration of Offer.

20.1 If this offer is not accepted by Seller on or before 5:00 P.M. according to the time standard applicable to the city of Irvine, California on the date of June 3, 2005 it shall be deemed automatically revoked.

20.2 The acceptance of this offer, or of any subsequent counteroffer hereto, that creates an agreement between the Parties as described in paragraph 1.2, shall be deemed made upon delivery to the other Party or either Broker herein of a duly executed writing unconditionally accepting the last outstanding offer or counteroffer.

21. LIQUIDATED DAMAGES. (This Liquidated Damages paragraph is applicable only if initialed by both Parties). THE PARTIES AGREE THAT IT WOULD BE IMPRACTICABLE OR EXTREMELY DIFFICULT TO FIX, PRIOR TO SIGNING THIS AGREEMENT, THE ACTUAL DAMAGES WHICH WOULD BE SUFFERED BY SELLER IF BUYER FAILS TO PERFORM ITS

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OBLIGATIONS UNDER THIS AGREEMENT. THEREFORE, IF, AFTER THE SATISFACTION OR WAIVER OF ALL CONTINGENCIES PROVIDED FOR THE BUYER'S BENEFIT, BUYER BREACHES THIS AGREEMENT, SELLER SHALL BE ENTITLED TO LIQUIDATED DAMAGES IN THE AMOUNT OF \$200,000.00. UPON PAYMENT OF SAID SUM TO SELLER, BUYER SHALL BE RELEASED FROM ANY FURTHER LIABILITY TO SELLER, AND ANY ESCROW CANCELLATION FEES AND TITLE COMPANY CHARGES SHALL BE PAID BY SELLER.

Buyer Initials

Seller Initials

22. ARBITRATION OF DISPUTES. *(This Arbitration of Disputes paragraph is applicable only if initialed by both Parties.)*

22.1 ANY CONTROVERSY AS TO WHETHER SELLER IS ENTITLED TO THE LIQUIDATED DAMAGES AND/OR BUYER IS ENTITLED TO THE RETURN OF DEPOSIT MONEY, SHALL BE DETERMINED BY BINDING ARBITRATION BY, AND UNDER THE COMMERCIAL RULES OF THE AMERICAN ARBITRATION ASSOCIATION (“**COMMERCIAL RULES**”). ARBITRATION HEARINGS SHALL BE HELD IN THE COUNTY WHERE THE PROPERTY IS LOCATED. ANY SUCH CONTROVERSY SHALL BE ARBITRATED BY 3 ARBITRATORS WHO SHALL BE IMPARTIAL REAL ESTATE BROKERS WITH AT LEAST 5 YEARS OF FULL TIME EXPERIENCE IN BOTH THE AREA WHERE THE PROPERTY IS LOCATED AND THE TYPE OF REAL ESTATE THAT IS THE SUBJECT OF THIS AGREEMENT. THEY SHALL BE APPOINTED UNDER THE COMMERCIAL RULES. THE ARBITRATORS SHALL HEAR AND DETERMINE SAID CONTROVERSY IN ACCORDANCE WITH APPLICABLE LAW, THE INTENTION OF THE PARTIES AS EXPRESSED IN THIS AGREEMENT AND ANY AMENDMENTS THERETO, AND UPON THE EVIDENCE PRODUCED AT AN ARBITRATION HEARING. PRE-ARBITRATION DISCOVERY SHALL BE PERMITTED IN ACCORDANCE WITH THE COMMERCIAL RULES OR STATE LAW APPLICABLE TO ARBITRATION PROCEEDINGS. THE AWARD SHALL BE EXECUTED BY AT LEAST 2 OF THE 3 ARBITRATORS, BE RENDERED WITHIN 30 DAYS AFTER THE CONCLUSION OF THE HEARING, AND MAY INCLUDE ATTORNEY'S FEES AND COSTS TO THE PREVAILING PARTY PER PARAGRAPH 16 HEREOF. JUDGMENT MAY BE ENTERED ON THE AWARD IN ANY COURT OF COMPETENT JURISDICTION NOTWITHSTANDING THE FAILURE OF A PARTY DULY NOTIFIED OF THE ARBITRATION HEARING TO APPEAR THEREAT.

22.2 BUYER'S RESORT TO OR PARTICIPATION IN SUCH ARBITRATION PROCEEDINGS SHALL NOT BAR SUIT IN A COURT OF COMPETENT JURISDICTION BY THE BUYER FOR DAMAGES AND/OR SPECIFIC PERFORMANCE UNLESS AND UNTIL THE ARBITRATION RESULTS IN AN AWARD TO THE SELLER OF LIQUIDATED DAMAGES, IN WHICH EVENT SUCH AWARD SHALL ACT AS A BAR AGAINST ANY ACTION BY BUYER FOR DAMAGES AND/OR SPECIFIC PERFORMANCE.

22.3 NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE “ARBITRATION OF DISPUTES” PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS SUCH RIGHTS ARE SPECIFICALLY INCLUDED IN THE “ARBITRATION OF DISPUTES” PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE “ARBITRATION OF DISPUTES” PROVISION TO NEUTRAL ARBITRATION.

Buyer Initials

Seller Initials

23. Miscellaneous.

23.1 **Binding Effect.** This Agreement shall be binding on the Parties without regard to whether or not paragraphs 21 and 22 are initialed by both of the Parties. Paragraphs 21 and 22 are each incorporated into this Agreement only if initialed by both Parties at the time that the Agreement is executed.

23.2 **Applicable Law.** This Agreement shall be governed by, and paragraph 22.3 is amended to refer to, the laws of the state in which the Property is located.

23.3 **Time of Essence.** Time is of the essence of this Agreement.

23.4 **Counterparts.** This Agreement may be executed by Buyer and Seller in counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. Escrow Holder, after verifying that the counterparts are identical except for the signatures, is authorized and instructed to combine the signed signature pages on one of the counterparts, which shall then constitute the Agreement.

23.5 **Waiver of Jury Trial.** **THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INVOLVING THE PROPERTY OR ARISING OUT OF THIS AGREEMENT.**

23.6 **Conflict.** Any conflict between the printed provisions of this Agreement and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

23.7 **1031 Exchange.** Both Seller and Buyer agree to cooperate with each other in the event that either or both wish to participate in a 1031 exchange. Any party initiating an exchange shall bear all costs of such exchange.

24. Disclosures Regarding The Nature of a Real Estate Agency Relationship.

24.1 The Parties and Brokers agree that their relationship(s) shall be governed by the principles set forth in the applicable sections of the California Civil Code, as summarized in paragraph 24.2.

24.2 When entering into a discussion with a real estate agency regarding a real estate transaction, a Buyer or Seller should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Buyer and Seller acknowledge being advised by the Brokers in this transaction, as follows:

(a) *Seller's Agent.* A Seller's agent under a listing agreement with the Seller acts as the agent for the Seller only. A Seller's agent or subagent has the following affirmative obligations: (1) *To the Seller:* A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Seller. (2) *To the Buyer and the Seller:* a Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(b) *Buyer's Agent.* A selling agent can, with a Buyer's consent, agree to act as agent for the Buyer only. In these situations, the agent is not the Seller's agent, even if by agreement the agent may receive compensation for services rendered, either in full or in part from the Seller. An agent acting only for a Buyer has the following affirmative obligations. (1) *To the Buyer:* A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Buyer. (2) *To the Buyer and the Seller:* a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(c) *Agent Representing Both Seller and Buyer.* A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Seller and the Buyer in a transaction, but only with the knowledge and consent of both the Seller and the Buyer. (1) In a dual agency situation, the agent has the following affirmative obligations, to both the Seller and the Buyer: a. A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with either Seller or the Buyer. b. Other duties to the Seller and the Buyer as stated above in their respective sections (a) or (b) of this paragraph 24.2. (2) In representing both Seller and Buyer, the agent may not without the express permission of the respective

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Title: _____
Address: _____

Telephone:(____) _____
Facsimile:(____) _____
Email: _____
Federal ID No. _____

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27. Acceptance.

27.1 Seller accepts the foregoing offer to purchase the property and hereby agrees to sell the Property to Buyer on the terms and conditions therein specified.

27.2 Seller acknowledges that Brokers have been retained to locate a Buyer and are the procuring cause of the purchase and sale of the Property set forth in this Agreement. In consideration of real estate brokerage service rendered by Brokers, Seller agrees to pay Brokers a real estate Brokerage Fee in a sum equal to _____% of the Purchase Price divided in such shares as said Brokers shall direct in writing. This Agreement shall serve as an irrevocable instruction to Escrow Holder to pay such Brokerage Fee to Brokers out of the proceeds accruing to the account of Seller at the Closing.

27.3 Seller acknowledges receipt of a copy hereof and authorizes Brokers to deliver a signed copy to Buyer.

NOTE: A PROPERTY INFORMATION SHEET IS REQUIRED TO BE DELIVERED TO BUYER BY SELLER UNDER THIS AGREEMENT.

BROKER:

SELLER:

Attn: _____
Title: _____
Address: _____

Telephone:(____) _____
Facsimile:(____) _____
Email: _____
Federal ID No. _____

By: _____
Date: _____
Name Printed: _____
Title: _____
Telephone:(____) _____
Facsimile:(____) _____

By: _____
Date: _____
Name Printed: _____
Title: _____
Address: _____

Telephone:(____) _____
Facsimile:(____) _____
Email: _____
Federal ID No: _____

These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: AIR COMMERCIAL REAL ESTATE ASSOCIATION, 700 South Flower Street, Suite 600, Los Angeles, CA 90017. (213) 687-8777.

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The parties agree and instruct the Escrow Agent to amend the current Escrow No. NE200827 – M26 as follows:

1. The purchase price shall be reduced to \$9,600,000;
2. The sale contingency period set forth in Section 28 shall be extended by 24 days to close of business on August 17, 2005, for the purpose of the Purchaser assessing whether the parking and use ordinances applicable to the property (as more particularly described in Section 9.1 (e)) allow for the Purchaser's intended use;
3. The Purchaser agrees to waive the further contingencies set forth in Section (s) 9.1 (a) thru (d) and (f) thru (l);
4. The close of escrow shall be extended to September 1, 2005; and
5. Purchaser shall be entitled to unilaterally extend the closing date for an additional 30 days (first extension), provided that he notifies Seller, in writing, 10 days prior to the initial closing date, and deposits with escrow, for immediate release to Seller, the sum of \$75,000.00.

Purchaser may, by written mutual agreement between Purchaser and Seller, request two additional 30 day extensions, provided Purchaser makes written request to Seller 15 days prior to the last extended closing date, gets written permission from Seller, which permission should be provided within seven (7) days prior to the last extended closing date, and deposits with escrow, for immediate release to Seller, the sum of \$75,000.00 for each such extension.


Upon receipt of each \$75,000.00 deposit, and Seller's agreement to each extension (except for the first extension which shall be automatic release) escrow holder shall release to Seller the \$75,000.00.

All funds released shall be applicable to the purchase price at close of escrow, but non-refundable should escrow not close by reason of Purchaser's default.

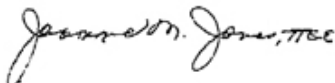
ALL OTHER TERMS AND CONDITIONS ARE TO REMAIN THE SAME.

James A. and Joanne M. Jones, Family Trust

By:


Trustee

By:



Trustee

17101 Armstrong Holding, LLC

By:

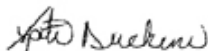

Jehorek Family Trust, Manager

By:


Steven Jehorek, Trustee

Resources Connection, Inc.

By:



Its:

Chief Legal Officer

The parties agree and instruct the Escrow Agent to amend the current Escrow No. NE200827 – M26 as follows:

1. The purchase price shall be reduced to \$9,300,000;
2. Purchaser agrees to waive its remaining contingencies; and
3. Purchaser agrees to release its Earnest Money Deposit currently held in escrow in the amount of Two Hundred Thousand Dollars (\$200,000.00). Such funds released shall be applicable to the purchase price at close of escrow, but are deemed non-refundable should escrow not close by reason of Purchaser's default.

ALL OTHER TERMS AND CONDITIONS ARE TO REMAIN THE SAME.

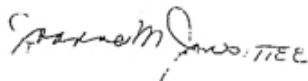
James A. and Joanne M. Jones, Family Trust

By:



Trustee


By:



Trustee

17102 Armstrong Holdings, LLC

By:



Jehorek Family Trust, Manager

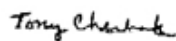
By:



Steven Jehorek, Trustee

Resource Connection, Inc.

By:



Its:

Chief Operating Officer

8/17/05

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Donald B. Murray, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Resources Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 5, 2006

/s/ Donald B. Murray

Donald B. Murray

President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Stephen J. Giusto, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Resources Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 5, 2006

/s/ Stephen J. Giusto

Stephen J. Giusto

Chief Financial Officer

and Executive Vice President of Corporate Development

WRITTEN STATEMENT

PURSUANT TO

18 U.S.C. SECTION 1350

The undersigned, Donald B. Murray, the Chief Executive Officer of Resources Connection, Inc., and Stephen J. Giusto, the Chief Financial Officer of Resources Connection, Inc. (the "Company"), pursuant to Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350, hereby certify that, to the best of their knowledge:

(i) the Report on Form 10-Q of the Company for the quarter ended November 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 5, 2006

/s/ Donald B. Murray

Donald B. Murray
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Stephen J. Giusto

Stephen J. Giusto
Chief Financial Officer and
Executive Vice President of Corporate Development
(Principal Financial Officer)

The foregoing certification accompanied the Report on Form 10-Q pursuant to 18 U.S.C. Section 1350. It is being reproduced herein for information only. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and it is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.