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

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**FORM 10-Q**

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(MARK ONE)

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

For the quarterly period ended August 31, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-32113

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**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)

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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 September 30, 2005, 47,754,179 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

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RESOURCES CONNECTION, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## RESOURCES CONNECTION, INC.

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	August 31, 2005	May 31, 2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 21,656,000	\$ 38,741,000
Short-term investments	74,000,000	54,000,000
Trade accounts receivable, net of allowance for doubtful accounts of \$5,634,000 and \$5,268,000 as of August 31, 2005 and May 31, 2005, respectively	83,356,000	80,848,000
Prepaid expenses and other current assets	3,553,000	3,555,000
Deferred income taxes	5,446,000	5,446,000
<b>Total current assets</b>	<b>188,011,000</b>	<b>182,590,000</b>
Long-term investments	45,000,000	42,000,000
Goodwill	80,013,000	80,013,000
Intangible assets, net	3,186,000	3,621,000
Property and equipment, net	9,729,000	8,827,000
Other assets	3,584,000	2,711,000
<b>Total assets</b>	<b>\$329,523,000</b>	<b>\$319,762,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 15,435,000	\$ 18,725,000
Accrued salaries and related obligations	26,950,000	41,752,000
Income taxes payable and other liabilities	8,038,000	2,821,000
<b>Total current liabilities</b>	<b>50,423,000</b>	<b>63,298,000</b>
Deferred income taxes	8,090,000	8,097,000
<b>Total liabilities</b>	<b>58,513,000</b>	<b>71,395,000</b>
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; 48,596,000 and 47,968,000 shares issued; and 48,032,000 and 47,404,000 outstanding as of August 31, 2005 and May 31, 2005, respectively	486,000	479,000
Additional paid-in capital	133,278,000	125,271,000
Deferred stock compensation	(569,000)	—
Accumulated other comprehensive gain	771,000	632,000
Retained earnings	142,325,000	127,266,000
Treasury stock at cost, 564,000 shares at both August 31, 2005 and May 31, 2005	(5,281,000)	(5,281,000)
<b>Total stockholders' equity</b>	<b>271,010,000</b>	<b>248,367,000</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$329,523,000</b>	<b>\$319,762,000</b>

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

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

	Three Months Ended	
	August 31, 2005	August 31, 2004
	<b>(unaudited)</b>	<b>(unaudited)</b>
Revenue	\$ 149,588,000	\$ 115,401,000
Direct cost of services, primarily payroll and related taxes for professional services employees	90,650,000	69,934,000
Gross profit	58,938,000	45,467,000
Selling, general and administrative expenses	34,092,000	25,181,000
Amortization of intangible assets	435,000	411,000
Depreciation expense	492,000	543,000
Income from operations	23,919,000	19,332,000
Interest income	972,000	304,000
Income before provision for income taxes	24,891,000	19,636,000
Provision for income taxes	9,832,000	8,051,000
Net income	<u>\$ 15,059,000</u>	<u>\$ 11,585,000</u>
Net income per common share:		
Basic	<u>\$ 0.32</u>	<u>\$ 0.25</u>
Diluted	<u>\$ 0.29</u>	<u>\$ 0.23</u>
Weighted average common shares outstanding:		
Basic	<u>47,724,000</u>	<u>46,552,000</u>
Diluted	<u>51,434,000</u>	<u>49,960,000</u>

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

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

**Three Months Ended**  
**August 31, 2005**

<b>COMMON STOCK—SHARES:</b>	
Balance at beginning of period	47,968,000
Exercise of stock options	535,000
Issuance of common stock under Employee Stock Purchase Plan	68,000
Issuance of restricted stock	25,000
	<hr/>
Balance at end of period	48,596,000
	<hr/>
<b>COMMON STOCK—PAR VALUE:</b>	
Balance at beginning of period	\$ 479,000
Exercise of stock options	6,000
Issuance of common stock under Employee Stock Purchase Plan	1,000
Issuance of restricted stock	—
	<hr/>
Balance at end of period	\$ 486,000
	<hr/>
<b>ADDITIONAL PAID-IN CAPITAL:</b>	
Balance at beginning of period	\$ 125,271,000
Exercise of stock options	6,059,000
Issuance of common stock under Employee Stock Purchase Plan	1,349,000
Issuance of restricted stock	599,000
	<hr/>
Balance at end of period	\$ 133,278,000
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<b>DEFERRED STOCK COMPENSATION:</b>	
Balance at beginning of period	\$ —
Issuance of restricted stock	(599,000)
Amortization of deferred stock compensation	30,000
	<hr/>
Balance at end of period	\$ (569,000)
	<hr/>
<b>ACCUMULATED OTHER COMPREHENSIVE GAIN:</b>	
Balance at beginning of period	\$ 632,000
Translation adjustments	139,000
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Balance at end of period	\$ 771,000
	<hr/>
<b>RETAINED EARNINGS:</b>	
Balance at beginning of period	\$ 127,266,000
Net income	15,059,000
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Balance at end of period	\$ 142,325,000
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<b>TREASURY STOCK—SHARES:</b>	
Balance at beginning of period	(564,000)
Repurchase of shares	—
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Balance at end of period	(564,000)
	<hr/>
<b>TREASURY STOCK—COST:</b>	
Balance at beginning of period	\$ (5,281,000)
Repurchase of shares	—
	<hr/>
Balance at end of period	\$ (5,281,000)
	<hr/>
<b>COMPREHENSIVE INCOME:</b>	
Net income	\$ 15,059,000
Translation adjustments	139,000
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Total comprehensive income	\$ 15,198,000
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The accompanying notes are an integral part of these financial statements.



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

	Three Months Ended	
	August 31, 2005	August 31, 2004
<b>Cash flows from operating activities:</b>		
Net income	\$ 15,059,000	\$ 11,585,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities :		
Depreciation and amortization	927,000	954,000
Amortization of deferred stock compensation	30,000	70,000
Bad debt expense	684,000	865,000
Changes in operating assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	(3,192,000)	(6,487,000)
Prepaid expenses and other current assets	2,000	996,000
Income taxes	4,637,000	5,607,000
Other assets	(873,000)	1,593,000
Accounts payable and accrued expenses	(3,290,000)	(2,365,000)
Accrued salaries and related obligations	(14,802,000)	(8,767,000)
Other liabilities	580,000	(146,000)
Net cash provided by (used in) operating activities	(238,000)	3,905,000
<b>Cash flows from investing activities:</b>		
Redemption of long-term investments	5,000,000	—
Purchase of long-term investments	(15,000,000)	(16,000,000)
Redemption of short-term investments	17,000,000	7,000,000
Purchase of short-term investments	(30,000,000)	(3,000,000)
Purchase of Nordic Spring, net of cash acquired and including transaction costs	—	(2,785,000)
Purchases of property and equipment	(1,394,000)	(540,000)
Net cash used in investing activities	(24,394,000)	(15,325,000)
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	6,065,000	925,000
Proceeds from issuance of common stock under Employee Stock Purchase Plan	1,350,000	809,000
Net cash provided by financing activities	7,415,000	1,734,000
Effect of exchange rate changes on cash	132,000	(164,000)
Net decrease in cash and cash equivalents	(17,085,000)	(9,850,000)
Cash and cash equivalents at beginning of period	38,741,000	20,626,000
Cash and cash equivalents at end of period	\$ 21,656,000	\$ 10,776,000

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

**ITEM 1. (CONTINUED)**

**RESOURCES CONNECTION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**Three months ended August 31, 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 eleven foreign subsidiaries (collectively the "Company"). LLC, which commenced operations in June 1996, and Texas, which was formed in May 2002, and the various foreign subsidiaries, 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, Canada, Denmark, France, Hong Kong, Japan, the Netherlands, Norway, 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 first quarter of fiscal 2006 and 2005, each consisting of 13 weeks, were August 27, 2005 and August 28, 2004, respectively. For convenience, all references herein to years or periods are to years or periods ended May 31 or August 31, respectively.

**2. Summary of Significant Accounting Policies**

**Interim Financial Information**

The financial information as of and for the three months ended August 31, 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 this report, 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 are 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 have 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 quarter ended August 31, 2004, to reflect the gross purchases of \$3.0 million and sales of \$7.0 million



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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.

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.

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)	\$(32,000)
Redemption of short-term investments	64,000	2,500

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 August 31, 2005 and May 31, 2005, the Company held \$40 million and \$27 million, respectively, 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 were recorded at cost, which approximates fair market value due to their variable interest rates, which typically reset every month. These securities have stated contractual maturities in excess of one year; however, the Company has the ability to liquidate these securities and does 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 is recorded as interest income.

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 \$45.0 million in investments classified as long-term as of August 31, 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 ("APB") Opinion 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	
	August 31, 2005	August 31, 2004
Net income, as reported	\$15,059,000	\$11,585,000
Stock-based employee compensation expense, net of related tax effects	18,000	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(429,000)	(2,608,000)
Pro forma net income	\$14,648,000	\$8,977,000
Net income per share:		
Basic-as reported	\$0.32	\$0.25
Basic-pro forma	\$0.31	\$0.19
Diluted-as reported	\$0.29	\$0.23
Diluted-pro forma	\$0.29	\$0.18

### **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.

### **Non-cash transaction**

Non-cash transactions during the quarter ended August 31, 2005 include the issuance of 25,000 shares of restricted stock to a senior executive. The fair market value of the stock on the date of issuance was \$23.95 per share, for an implied value of \$599,000. The stock vests over five years.

### **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 205,000 and 130,000 were not included in the diluted earnings per share amounts for the three months ended August 31, 2005 and 2004, respectively, as their effect would have been anti-dilutive. For the three months ended August 31, 2005 and 2004, potentially dilutive securities consisted solely of stock options and resulted in potential common shares of 3,710,000 and 1,704,000, respectively. The potential common shares disclosed in this paragraph for the three months ended August 31, 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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In the first quarter of fiscal 2006, the Company recognized \$83,000 as the minority interest in the operating results of Nordic Spring for such quarter; this amount is included in the Company's "selling, general and administrative expenses" in the Consolidated Statements of Income for the three months ended August 31, 2005 and the related liability is included in "other liabilities" in the Consolidated Balance Sheet as of August 31, 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 August 31, 2005			As of May 31, 2005		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships (2 – 4 years)	\$ 5,010,000	\$ (2,803,000)	\$ 2,207,000	\$ 5,010,000	\$ (2,480,000)	\$ 2,530,000
Associate and customer database (1 – 5 years)	1,759,000	(1,142,000)	617,000	1,759,000	(1,089,000)	670,000
Non-compete agreements (1 – 4 years)	802,000	(687,000)	115,000	802,000	(673,000)	129,000
Developed technology (3 years)	520,000	(355,000)	165,000	520,000	(310,000)	210,000
Trade name and trademark (indefinite life)	82,000	—	82,000	82,000	—	82,000
<b>Total</b>	<b>\$ 8,173,000</b>	<b>\$ (4,987,000)</b>	<b>\$ 3,186,000</b>	<b>\$ 8,173,000</b>	<b>\$ (4,552,000)</b>	<b>\$ 3,621,000</b>
<b>Goodwill (indefinite life)</b>	<b>\$84,630,000</b>	<b>\$ (4,617,000)</b>	<b>\$ 80,013,000</b>	<b>\$ 84,630,000</b>	<b>\$ (4,617,000)</b>	<b>\$ 80,013,000</b>

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 August 31, 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.

## 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 ended August 31, 2005 and 2004.

	Revenue for the three months ended		Long-Lived Assets as of	
	August 31, 2005	August 31, 2004	August 31, 2005(1)	May 31, 2005(1)
United States	\$ 116,505,000	\$ 96,868,000	\$ 8,177,000	\$ 7,311,000
The Netherlands	15,117,000	10,923,000	740,000	782,000
Other	17,966,000	7,610,000	812,000	734,000
<b>Total</b>	<b>\$ 149,588,000</b>	<b>\$ 115,401,000</b>	<b>\$ 9,729,000</b>	<b>\$ 8,827,000</b>

(1) Long-lived assets are comprised of computers and equipment, furniture and leasehold improvements.

## 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 methods record 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.

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### 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; 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, negotiating contracts and performing tactical purchasing; and 6) legal services, that provides 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. In January 2005, we announced the change of our operating entity name to Resources Global Professionals to better reflect the Company’s global capabilities across a base of more than 1,900 clients within 39 countries during fiscal 2005.

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.

Fiscal Year	Number of Domestic Offices Opened	International Operations Established	Service Line Established
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	Copenhagen, Denmark; Oslo, Norway	

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.

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During the first quarter of fiscal 2006, we opened practices in Louisville, Kentucky; Copenhagen, Denmark; and Oslo, Norway. As of August 31, 2005, we served our clients through 50 offices in the United States and 18 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.

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 August 31, 2005 Compared to Three Months Ended August 31, 2004**

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

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*Revenue.* Revenue increased \$34.2 million, or 29.6%, to \$149.6 million for the three months ended August 31, 2005 from \$115.4 million for the three months ended August 31, 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 first quarter of fiscal 2006 compared to fiscal 2005's first quarter. 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 11.1% 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 2,370 at the end of the first quarter of fiscal 2005 to 2,630 at the end of the first quarter of fiscal 2006. We operated 68 and 63 offices in the first 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 20.2% or \$19.6 million from \$96.9 million for the three months ended August 31, 2004 to \$116.5 million for the three months ended August 31, 2005. Revenue for the Dutch practice improved 38.5% or \$4.2 million, from \$10.9 million for the three months ended August 31, 2004 to \$15.1 million for the three months ended August 31, 2005. There was negligible impact on the Netherlands' practice's revenue from the change in foreign currency rates between the first quarters of fiscal 2006 and 2005. The other international offices' revenue grew 136.8% or \$10.4 million, from \$7.6 million for the three months ended August 31, 2004 to \$18.0 million for the three months ended August 31, 2005. Approximately \$2.1 million of the growth in revenues was attributable to Nordic Spring, acquired at the end of the first quarter of fiscal 2005. Nevertheless, all international practices enjoyed growth from both referrals from the United States as well as internally generated opportunities, particularly in the United Kingdom, Hong Kong, Japan and Canada.

*Direct Cost of Services.* Direct cost of services increased \$20.8 million, or 29.8%, to \$90.7 million for the three months ended August 31, 2005 from \$69.9 million for the three months ended August 31, 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 10.4% year-over-year. The direct cost of services as a percentage of revenue (the "direct cost of services percentage") was 60.6% for both the three months ended August 31, 2005 and 2004. The direct cost of services percentage did not change between the two quarters because a slight improvement in the ratio of direct associate salary expense compared to hourly revenue generated in the first quarter of fiscal 2006, was offset by the increase in volume of zero margin client expense reimbursements as the Company's projects requiring associate travel increased significantly.

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 21.8% for the quarter ended August 31, 2004 to 22.8% for the quarter ended August 31, 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 \$8.9 million, or 35.3%, to \$34.1 million for the three months ended August 31, 2005 from \$25.2 million for the three months ended August 31, 2004. In particular, compensation and related benefit expenses increased as management and administrative headcount grew from 478 at the end of the first quarter of fiscal 2005 to 619 at the end of the first quarter of fiscal 2006. The increase in dollars spent was attributable to the increase in salaries and benefit costs driven by the larger headcount; an increase in spending for advertising related to associate recruitment; and an increase in bonus expense as a result of the Company's improved revenue results.

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.

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*Amortization and Depreciation Expense.* Amortization of intangible assets was \$435,000 in the first quarter of fiscal 2006 compared to \$411,000 in the prior year's first 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 \$543,000 for the three months ended August 31, 2004 to \$492,000 for the three months ended August 31, 2005. An increase in depreciation related to the offices relocated or expanded since August 2004, depreciation related to purchases in the first 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.

*Interest Income.* During the first quarter of fiscal 2006, interest income was \$972,000 compared to interest income of \$304,000 in the quarter ended August 31, 2004. The increase in interest income is a combination of a higher average cash balance available for investment in the first quarter of fiscal 2006 and the improved interest rates available year over year.

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 August 31, 2005, the Company has \$34 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. The Company also has \$40.0 million of auction-rate securities classified as short-term investments. These investments are recorded at cost and classified as "available-for-sale", which approximates fair market value due to their variable interest rates. These rates are typically adjusted every month. Although the stated contractual maturities of these securities is in excess of one year, the Company has the ability and intent to quickly liquidate these securities. In addition, the Company also holds \$45 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 August 2007 and have coupon rates ranging from 3.0% to 4.4%. These investments have been classified in the August 31, 2005 consolidated balance sheet as "held-to-maturity" securities.

*Income Taxes.* The provision for income taxes increased from \$8.1 million for the three months ended August 31, 2004 to \$9.8 million for the three months ended August 31, 2005 as a result of the increase in the Company's pre-tax income. The effective tax rate was 39.5% and 41.0% in the three months ended August 31, 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 in the fiscal 2006 quarter due primarily to the impact of the improved operating results of the Company's international operations on the tax provision. 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.

*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 a \$10.0 million unsecured revolving credit facility with Bank of America (the "Credit Agreement"). 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, 2005. As of August 31, 2005, the Company had no outstanding borrowings under the revolving credit facility and is in compliance with all covenants included in the Credit Agreement.

Net cash provided by operating activities was \$3.9 million for the three months ended August 31, 2004 compared to a use of cash of \$238,000 for the three months ended August 31, 2005. Cash was used in operations in the first quarter of fiscal 2006 as compared to fiscal 2005 primarily for an increase in the amount paid for the Company's management incentive



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bonus and associates' profit sharing plan in the first quarter of fiscal 2006 as compared to the amount paid in fiscal 2005. This was offset by the increase in net income between the first quarter of fiscal 2006 and 2005 of \$3.5 million and slower growth in the Company's accounts receivable in the first quarter of fiscal 2006 as compared to fiscal 2005. The Company's working capital includes \$21.7 million in cash and cash equivalents as of August 31, 2005.

Net cash used in investing activities was \$24.4 million for the first three months of fiscal 2006 compared to \$15.3 million in the first three months of fiscal 2005. The Company invested a net of \$17.0 million more in short-term investments in the first quarter of fiscal 2006 as compared to fiscal 2005; however, the Company invested a net of \$6.0 million less in long-term investments in the current fiscal year as compared to the prior year quarter. In the prior year first three months, the Company also used a net amount of approximately \$2.8 million in cash to complete the acquisition of an 80% interest in Nordic Spring and pay related transaction costs. In addition, the Company spent approximately \$1.4 million on leasehold improvements, office equipment and information technology upgrades in the first three months of fiscal 2006, up from \$540,000 in the previous year's first three months.

Net cash provided by financing activities totaled \$7.4 million for the three months ended August 31, 2005 compared to \$1.7 million for the comparable prior year period. More stock options were exercised and more stock was purchased via the Company's Employee Stock Purchase Plan in the first three 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 methods record 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.

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 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. A significant portion of recent growth emanates from clients' demands related to compliance with certain sections of Sarbanes. For large companies with calendar year-ends, initial compliance was due in March 2005. 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;
- 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 the 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.

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

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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;

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- 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.

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 first quarter of fiscal 2006, we had approximately \$140.7 million of cash, highly liquid short-term investments and long-term marketable securities. 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. The Company's short-term investments at August 31, 2005 included \$40 million of marketable securities consisting of auction rate securities, classified as available-for-sale. The Company's investment in these securities were recorded at cost, which approximates fair market value due to their variable interest rates, which typically reset every month. These securities have stated contractual maturities in excess of one year; however, the Company has the ability to liquidate these securities and does 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 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.

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For the quarter ended August 31, 2005, approximately 22% 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 investments in marketable securities as of August 31, 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 first 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 August 31, 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 controls over financial reporting during the Company's quarter ended August 31, 2005 that materially affected, or is reasonably likely to materially affect, the Company's internal controls 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**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

a) Exhibits

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.\*

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\* 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: October 6, 2005

/s/ Donald B. Murray

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**Donald B. Murray**  
**President and Chief Executive Officer**

Date: October 6, 2005

/s/ Stephen J. Giusto

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

## 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: October 6, 2005

/s/ Donald B. Murray

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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: October 6, 2005

/s/ Stephen J. Giusto

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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 August 31, 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: October 6, 2005

/s/ Donald B. Murray

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

/s/ Stephen J. Giusto

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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.