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 August 31, 2003

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	**33-0832424**
(State or Other Jurisdiction of Incorporation or Organization)	**(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 ☐

As of October 10, 2003, 22,613,474 shares of the registrant's common stock, $0.01 par value per share, were outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RESOURCES CONNECTION, INC.

CONSOLIDATED BALANCE SHEETS

	August 31, 2003	May 31, 2003
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,938,000	$ 48,078,000
Trade accounts receivable, net of allowance for doubtful accounts of $3,186,000 and $2,388,000 as of August 31, 2003 and May 31, 2003, respectively	34,270,000	26,635,000
Prepaid expenses and other current assets	1,922,000	2,035,000
Prepaid income taxes	—	1,774,000
Deferred income taxes	2,596,000	2,596,000
Total current assets	69,726,000	81,118,000
Investments in marketable securities	7,000,000	20,000,000
Intangible assets, net	79,763,000	49,079,000
Property and equipment, net	5,013,000	4,341,000
Other assets	707,000	1,399,000
Total assets	$162,209,000	$155,937,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 8,961,000	$ 2,784,000
Accrued salaries and related obligations	10,961,000	17,899,000
Other liabilities	818,000	258,000
Total current liabilities	20,740,000	20,941,000
Deferred income taxes	1,465,000	1,465,000
Total liabilities	22,205,000	22,406,000
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, 35,000,000 shares authorized; 22,542,000 and 22,251,000 shares issued and outstanding as of August 31, 2003 and May 31, 2003, respectively	225,000	222,000
Additional paid-in capital	89,599,000	86,676,000
Deferred stock compensation	(403,000)	(480,000)
Accumulated other comprehensive gain	295,000	293,000
Notes receivable from stockholders	—	(55,000)
Retained earnings	50,289,000	46,876,000
Treasury stock at cost, 141,000 shares at both August 31, 2003 and May 31, 2003	(1,000)	(1,000)
Total stockholders' equity	140,004,000	133,531,000
Total liabilities and stockholders' equity	$162,209,000	$155,937,000

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	August 31, 2003	August 31, 2002
	(unaudited)	(unaudited)
Revenue	$ 59,541,000	$ 43,528,000
Direct cost of services, primarily payroll and related taxes for professional services employees	36,055,000	26,301,000
Gross profit	23,486,000	17,227,000
Selling, general and administrative expenses	17,229,000	13,018,000
Amortization of intangible assets	306,000	31,000
Depreciation expense	387,000	315,000
Income from operations	5,564,000	3,863,000
Interest income	(172,000)	(338,000)
Income before provision for income taxes	5,736,000	4,201,000
Provision for income taxes	2,323,000	1,722,000
Net income	$ 3,413,000	$ 2,479,000
Net income per common share:		
Basic	$ 0.15	$ 0.11
Diluted	$ 0.15	$ 0.11
Weighted average common shares outstanding:		
Basic	22,253,000	21,616,000
Diluted	23,449,000	22,805,000

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Three Months Ended	
	August 31, 2003	August 31, 2002
	(unaudited)	(unaudited)
COMMON STOCK—SHARES:		
Balance at beginning of period	22,251,000	21,661,000
Exercise of stock options	255,000	73,000
Issuance of common stock under Employee Stock Purchase Plan	36,000	44,000
Balance at end of period	22,542,000	21,778,000
COMMON STOCK—PAR VALUE:		
Balance at beginning of period	$ 222,000	$ 216,000
Exercise of stock options	3,000	1,000
Issuance of common stock under Employee Stock Purchase Plan	—	1,000
Balance at end of period	$ 225,000	$ 218,000
ADDITIONAL PAID-IN CAPITAL:		
Balance at beginning of period	$ 86,676,000	$ 79,991,000
Exercise of stock options	2,217,000	310,000
Issuance of common stock under Employee Stock Purchase Plan	706,000	980,000
Forfeiture of restricted stock and stock options	—	(67,000)
Balance at end of period	$ 89,599,000	$ 81,214,000
DEFERRED STOCK COMPENSATION:		
Balance at beginning of period	$ (480,000)	$ (909,000)
Forfeiture of restricted stock and stock options	—	67,000
Amortization of deferred stock compensation	77,000	84,000
Balance at end of period	$ (403,000)	$ (758,000)
ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS):		
Balance at beginning of period	$ 293,000	$ (51,000)
Translation adjustments	2,000	20,000
Balance at end of period	$ 295,000	$ (31,000)
NOTES RECEIVABLE FROM STOCKHOLDERS:		
Balance at beginning of period	$ (55,000)	$ (109,000)
Repayment of notes receivable	55,000	54,000
Balance at end of period	$ —	$ (55,000)
RETAINED EARNINGS:		
Balance at beginning of period	$ 46,876,000	$ 34,334,000
Net income	3,413,000	2,479,000
Balance at end of period	$ 50,289,000	$ 36,813,000
TREASURY STOCK—SHARES:		
Balance at beginning of period	(141,000)	(101,000)
Repurchase of shares	—	(15,000)
Balance at end of period	(141,000)	(116,000)
TREASURY STOCK—COST:		
Balance at beginning of period	$ (1,000)	$ (1,000)
Repurchase of shares	—	—
Balance at end of period	$ (1,000)	$ (1,000)
COMPREHENSIVE INCOME:		
Net income	$ 3,413,000	$ 2,479,000
Translation adjustments	2,000	20,000

Total comprehensive income	$ 3,415,000	$ 2,499,000

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	August 31, 2003	August 31, 2002
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income	$ 3,413,000	$ 2,479,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	693,000	346,000
Amortization of deferred stock compensation	77,000	84,000
Bad debt expense	107,000	219,000
Changes in operating assets and liabilities:		
Trade accounts receivable	1,003,000	(1,791,000)
Prepaid expenses and other current assets	573,000	46,000
Prepaid income taxes	2,183,000	1,619,000
Other assets	669,000	(3,000)
Accounts payable and accrued expenses	(5,098,000)	(469,000)
Accrued salaries and related obligations	(6,938,000)	(2,346,000)
Other liabilities	53,000	34,000
Net cash (used in) provided by operating activities	(3,265,000)	218,000
Cash flows from investing activities:		
Redemption of marketable securities	20,000,000	18,000,000
Purchase of marketable securities	(7,000,000)	(6,000,000)
Purchase of Executive Temporary Management BV, net of cash acquired and including transaction costs	(26,776,000)	—
Purchase of policyIQ, including transaction costs	(2,050,000)	—
Purchase of Deloitte Re:sources Pty, including transaction costs	(1,038,000)	—
Purchases of property and equipment	(64,000)	(207,000)
Net cash (used in) provided by investing activities	(16,928,000)	11,793,000
Cash flows from financing activities:		
Proceeds from exercise of stock options	2,220,000	311,000
Proceeds from issuance of common stock under Employee Stock Purchase Plan	706,000	981,000
Repayment of notes receivable from stockholders	55,000	54,000
Net cash provided by financing activities	2,981,000	1,346,000
Effect of exchange rate changes on cash	72,000	—
Net (decrease) increase in cash	(17,140,000)	13,357,000
Cash and cash equivalents at beginning of period	48,078,000	31,745,000
Cash and cash equivalents at end of period	$ 30,938,000	$ 45,102,000

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, 2003 and 2002

1. Description of the Company and its Business

Resources Connection, Inc. ("Resources Connection"), was incorporated on November 16, 1998. The Company 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"), Resources Consulting Group, LP ("RCG"), RECN Procurement Centre LP ("TPC") and foreign subsidiaries (collectively the "Company"). Prior to its acquisition of LLC on April 1, 1999, Resources Connection, Inc. had no substantial operations. 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 and human resources on a project basis. RAS commenced business formally in June 2002 and assists its clients with their internal audit and risk assessment needs on a project, co-sourced or outsourced basis. RCG, launched in June of 2002, expands our existing executive compensation consulting practice. TPC is a provider of supply chain management services to companies on a project basis. The Company operates in the United States, Australia, Canada, Hong Kong, the Netherlands, Taiwan and the United Kingdom. Resources Connection is a Delaware corporation. LLC and RAS are Delaware limited liability companies. Texas, RCG and TPC are limited partnerships 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 2004 and 2003, each consisting of 13 weeks, were August 30, 2003 and August 24, 2002, 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 for the three months ended August 31, 2003 and 2002 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation 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, 2003, which are included in the Company's Annual Report on Form 10-K for the year then ended (File No. 0-32113).

Investments in Marketable Securities

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. 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 $7 million in investments classified as long-term as of August 31, 2003 are callable at the discretion of the issuer although their stated maturity dates are greater than one year from the balance sheet date.

Intangible Assets

The Company accounts for intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes standards for goodwill acquired in a business combination and other intangible assets and requires annual evaluation of goodwill for impairment. The Company is required to evaluate goodwill for impairment by 1) determining the individual reporting units giving rise to the existing goodwill; 2) allocating a fair value to each of the individual reporting units via measures such as market capitalization and analysis of future cash flows; and 3) comparing such fair value amounts to the carrying values of the reporting units. An impairment loss is recognized if the carrying amount of the reporting unit exceeds its fair value. The Company does not believe, based upon the current fair market value of its publicly traded common stock, that an impairment of goodwill has occurred.

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. 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.

Potential common shares totaling 933,000 and 1,398,000 were not included in the diluted earnings per share amounts for the three months ended August 31, 2003 and 2002, respectively, as their effect would have been anti-dilutive. For the three months ended August 31, 2003 and 2002, potentially dilutive securities consisted solely of stock options and resulted in potential common shares of 1,197,000 and 1,189,000, respectively.

Pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has elected to continue the intrinsic value method of accounting for stock options granted to employees and directors in accordance with Accounting Principles Board ("APB") Opinion No. 25 and related interpretations in accounting for stock option plans. Had compensation cost been determined based on the fair value at the grant dates for stock options under its option plan consistent with the method promulgated by SFAS No. 123, the Company's net income for the three months ended August 31, 2003 would have resulted in the pro forma amounts below:

	Three Months Ended August 31,	
	2003	2002
Net income, as reported	$ 3,413,000	$ 2,479,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,330,000	1,888,000
Pro forma net income	$ 2,083,000	$ 591,000
Net income per share:		
Basic–as reported	$ 0.15	$ 0.11
Basic–pro forma	$ 0.09	$ 0.03
Diluted–as reported	$ 0.15	$ 0.11
Diluted–pro forma	$ 0.09	$ 0.03

4. Acquisitions

During the first quarter of fiscal 2004, the Company completed three separate cash acquisitions as follows:

- On July 15, 2003, the Company acquired the outstanding capital shares of Ernst & Young's subsidiary, Executive Temporary Management BV in the Netherlands for $29.4 million. The Company completed the acquisition to provide a foundation in continental Europe and believes the acquisition will allow it to market to current and prospective multinational clients with significant international operations. This operation has been renamed Resources Connection.NL (RC.NL).

- On June 1, 2003, the Company acquired the operations of Deloitte Re:sources Pty Ltd. operating in Australia from Deloitte Touche Tohmatsu for $1 million. This operation has been renamed Resources Connection Australia.
- On July 30, 2003, the Company acquired policyIQ™, a web-based solution for internal controls documentation and content management. The software will be marketed via our RAS subsidiary.

In accordance with SFAS No. 141, the Company will allocate the purchase price based on the fair value of the assets acquired and liabilities assumed and will engage an independent appraiser to assist in valuing the acquired intangible assets of the three entities. The excess of the purchase price over the net tangible assets acquired will be allocated to goodwill and amortizable intangible assets based on management's estimates until final allocations are completed. During the first quarter of fiscal 2004, the Company recognized an estimate of amortization expense of $120,000. On a quarterly basis, management's estimate of amortization is approximately $235,000. However, the final allocations, expected to be completed no later than the Company's third quarter, could be materially different from the preliminary purchase price allocation and may result in the identification of additional amortizable intangible assets.

The following table presents revenue, net income and diluted earnings per share for the quarters ended August 31, 2003 and 2002 as if the acquisition of RC.NL had occurred on June 1, 2003 and 2002, respectively:

	Resources Connection, Inc.	RC.NL	Pro Forma Adjustments	
	Quarter Ended August 31, 2003	Pre-Acquisition Results	Increase (Decrease)	Pro Forma Combined
Revenue	$ 59,541,000	$ 5,233,000	$ —	$ 64,774,000
Net income	$ 3,413,000	$ (53,000)	$ (70,000)	$ 3,290,000
Diluted earnings per share	$ 0.15			$ 0.14

	Resources Connection, Inc.	RC.NL	Pro Forma Adjustments	
	Quarter Ended August 31, 2002	Quarter Ended September 30, 2002	Increase (Decrease)	Pro Forma Combined
Revenue	$ 43,528,000	$ 12,667,000	$ —	$ 56,195,000
Net income	$ 2,479,000	$ 324,000	$ (193,000)	$ 2,610,000
Diluted earnings per share	$ 0.11			$ 0.11

The net pro forma adjustments reflect estimated amortization on amortizable intangibles allocated in the purchase, reduction in interest income from the use of cash in the purchase and impact on income taxes.

5. Segment Reporting

Historically, the Company has reported only one operating segment. However, with the completion of the acquisitions described in Note 4, the revenue generated from operations outside of the United States, particularly in the Netherlands, exceeds thresholds for disclosure as described in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

The accounting policies for each of the reportable segments are the same as those described in Note 1 of the Company's 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, 2003. Amounts for the three months ended August 31, 2002 were not material.

	Revenue	Long-Lived Assets (1)
United States	$51,574,000	$3,710,000
The Netherlands	4,963,000	940,000
Other	3,004,000	363,000
Total	$59,541,000	$5,013,000

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

6. Recent Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections". Among other matters, SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt" thereby eliminating the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in APB Opinion No. 30, "Reporting Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" will be used to classify those gains and losses. The Company adopted SFAS No. 145 effective June 1, 2002 and has reclassified the costs incurred in connection with the early extinguishment of debt in fiscal 2001 as interest expense with the related income tax benefit included as a component of the provision for income taxes. Refer to the "Interest Expense" accounting policy in Note 2 of the "Notes to Consolidated Financial Statements" included in the Company's Report on Form 10-K for its fiscal year ended May 31, 2003.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", which had required a liability for an exit cost be recognized at the date of a company's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002 and requires that a liability for an exit cost be recognized when incurred. This statement also requires that the initial measurement of this liability be at fair value. Should the Company have a restructuring activity in the future, this statement would primarily impact the timing of the recognition of the expense. The Company adopted SFAS No. 146 effective January 1, 2003. The adoption of this statement did not have a material impact on its financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This interpretation provides for additional disclosures to be made by a guarantor in its interim and annual financial statements about obligations that it has. This interpretation is effective for financial statements of interim or annual periods ending after December 15, 2002. The Company adopted the disclosure provision of this interpretation effective March 1, 2003. The adoption of this statement did not have a material impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting," to require prominent disclosure in both the annual and interim financial statements about the method of accounting and the effect on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. The Company adopted the disclosure provisions of this statement effective March 1, 2003. The adoption did not have a material impact on the Company's financial position or results of operations, as it will continue to account for stock-based compensation under APB No. 25.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities—an interpretation of Accounting Research Bulletin No. 51." The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. This new model for consolidation applies to an entity in which either (1) the powers or rights of the equity holders do not give them sufficient decision making powers or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. FIN 46 requires a variable interest entity to be consolidated into the company that is subject to a majority of the risk of loss from the variable interest entity's activities or that is entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. For entities created on or prior to January 31, 2003, the consolidation requirements apply in the first fiscal year or interim period beginning after December 15, 2003. The Company does not believe the adoption of this statement will have a material impact on its financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified after June 30, 2003. The Company does not believe the adoption of this statement will have a material impact on its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not believe that the adoption of SFAS 150 will have a material impact on its consolidated financial position, results of operations or cash flows.

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, 2003 (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", the "Company," "we," "us," and "our" refer to Resources Connection, Inc. and its subsidiaries.

Overview

Resources Connection is an international professional services firm that provides experienced accounting and finance, risk management and internal audit, information technology, human resources and supply chain management professionals to clients on a project basis. We assist our clients with discrete projects requiring specialized expertise in accounting and finance, such as mergers and acquisitions due diligence, financial analyses (e.g., product costing and margin analyses), corporate reorganizations and tax-related projects. In addition, we provide human resources management services, such as compensation program design and implementation, information technology services, such as transitions of management information systems, and internal audit services, such as documenting internal controls. We also assist our clients with periodic needs such as budgeting and forecasting, audit preparation, public reporting and assisting clients with their compliance efforts under the Sarbanes-Oxley Act of 2002 ("Sarbanes").

We began operations in June 1996 as a division of Deloitte & Touche and operated as a wholly owned subsidiary of Deloitte & Touche 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, among others, an investor, Evercore Partners, Inc. In December 2000, we completed our initial public offering of common stock and began trading on the Nasdaq National Market.

Growth in revenue, to date, has generally been the result of establishing offices in major markets. We established nine offices during fiscal 1997, our initial fiscal year, all in the Western United States. In fiscal 1998, we established nine additional offices, which extended our geographic reach to the Midwest and Eastern United States. For the year ended May 31, 1999, we opened ten more offices and established a new service line in information technology. In fiscal 2000, we established four more domestic offices, established a new service line in human resources management and also began operations in Toronto, Canada; Taipei, Taiwan; and Hong Kong, People's Republic of China. In fiscal 2001, we established nine additional domestic offices. In fiscal 2002, we began operations in London, England and opened two more domestic offices. The information technology and human resources management service lines have been introduced in a limited number of our offices.

During fiscal 2003, operations commenced for two operating entities that focus primarily on providing internal audit services (Resources Audit Solutions, LLC ("RAS")) and executive compensation and corporate governance consulting (Resources Consulting Group, LP). In October 2003, RCG effectively ceased separate operations with the departure of the majority of its employees. In the second quarter of fiscal 2003, we completed the acquisition of The Procurement Centre, LLC

(“TPC”), a Texas based provider of supply chain management services to companies on a project basis. In addition to TPC’s office in Houston, Texas, we opened six offices domestically during fiscal 2003 and an office in Birmingham, England.

In the first quarter of fiscal 2004, we completed three transactions to enhance our international presence as well as our ability to deliver services through RAS. The largest of the three transactions was the all cash acquisition for $29.4 million of the outstanding capital shares of Ernst & Young’s subsidiary, Executive Temporary Management BV (“ETM”) in the Netherlands on July 15, 2003. ETM, renamed Resources Connection.NL (“RC.NL”), is considered a market leader in the interim management industry in the Netherlands. We believe this acquisition will provide a foundation in continental Europe and will allow us to market to our current and prospective multinational clients seeking an alternative to Big Four audit firms, particularly in light of current concerns about auditor independence. RC.NL has seven offices in the Netherlands and contracted with, or employed, over 250 professional service associates on assignment as of August 31, 2003.

In addition to the international expansion driven by the acquisition of RC.NL, we also acquired the operations of Deloitte Re:sources Pty Ltd. from Deloitte Touche Tohmatsu in Australia in an all cash deal for $1 million on June 1, 2003. The subsidiary, renamed Resources Connection Australia Pty. Ltd., was originally launched in 1998 by us on behalf of the Deloitte Australia firm. The acquisition presented the opportunity to expand our Asia Pacific presence.

Finally, on July 30, 2003, we announced the acquisition of the company that developed policyIQ™, a web-based solution for internal controls documentation and content management. The purchase included upfront cash and provision for contingent payments based on sales volume. policyIQ™ is a tool that clients of our subsidiary, RAS, can use to assist in complying with Sarbanes, among other things. RAS specializes in conducting internal audits, assisting clients in establishing and documenting efficient internal controls, assessing risk management practices and complying with the myriad of new regulations associated with Sarbanes.

As of August 31, 2003, we served our clients through 51 offices in the United States and 14 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 new accounting standard effective June 1, 2001, our goodwill and certain other intangible assets are no longer 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.

Allowance for doubtful accounts—We maintain an allowance for doubtful accounts for estimated losses resulting from the failure of our clients 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.

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 differs from the amount of tax expense we have reflected in the Consolidated Statements of Income, additional tax expense may need to be recorded.

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, 2003 Compared to Three Months Ended August 31, 2002

The comments regarding the consolidated results of operation discussed below for the three months ended August 31, 2003 include the results of operations for the following periods: for TPC and Resources Connection Australia Pty Ltd, a full quarter of results of operations; for RC.NL, results of operations from July 15, 2003 through August 31, 2003; and for policyIQ, results of operations from July 30, 2003 through August 31, 2003. Collectively, these acquisitions are referred to in the comments below as "the acquisitions".

Revenue. Revenue increased $16.0 million, or 36.8%, to $59.5 million for the three months ended August 31, 2003 from $43.5 million for the three months ended August 31, 2002. Growth in revenues is attributable to additional revenues from the Australian and Netherlands practices and TPC. These entities contributed approximately $8.4 million to revenues during the quarter. Without the additional revenue from the purchased practices, revenues would have increased 17.4%. This increase was triggered by the continued expansion of our scope of services resulting in more billable hours for our associates and an improvement in rate per hour. Our services expanded in information technology, human capital and internal audit engagements by increasing marketing awareness of our ability to provide those types of services. These measures partially offset the effects of the negative economy, which continues to adversely impact finance and accounting engagements. However, overall bill rates improved by 7.5% 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 1,044 at the end of the first quarter of fiscal 2003 to 1,468 at the end of the first quarter of fiscal 2004 (including 357 associates working for the purchased entities as of August 31, 2003).

We operated 65 offices during the first quarter of fiscal 2004 compared with 47 offices during the first quarter of the previous fiscal year. Nine of the additional offices operated in the first quarter of fiscal 2004 were acquired as a part of the acquisitions. We opened one new domestic office during the current quarter and none in last year's first fiscal quarter.

Direct Cost of Services. Direct cost of services increased $9.8 million, or 37.1%, to $36.1 million for the three months ended August 31, 2003 from $26.3 million for the three months ended August 31, 2002. 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 as well as the results of the acquisitions included in the first quarter of fiscal 2004; overall, the average pay rate per hour increased by 8.2% year-over-year. The direct cost of services as a percentage of revenue increased from 60.4% for the three months ended August 31, 2002 to 60.6% for the three months ended August 31, 2003. The net increase primarily reflects the incremental increase in pay rate per hour compared to bill rate per hour and the decrease in conversion fees in the current year compared to the prior year, as well as the greater impact of the international operations.

Historically, the cost of compensation and related benefits offered to the associates of RC.NL has been greater as a percentage of revenue than the Company's other operations. Thus, RC.NL's direct cost of services has usually exceeded the Company's targeted direct cost of services of 60%. The impact in the current quarter was mitigated by the inclusion of only seven weeks of results of RC.NL.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $4.2 million, or 32.3%, to $17.2 million for the three months ended August 31, 2003 from $13.0 million for the three months ended August 31, 2002. This increase was primarily attributable to the aforementioned acquisitions. In particular, compensation and related benefit expenses from the change in management and administrative headcount from 316 at the end of the first quarter of fiscal 2003 to 448 at the end of the first quarter of fiscal 2004 accounted for the majority of the increase. Without the acquisitions, management and administrative headcount would have been 332; the nine additional offices opened since the first quarter of 2003 triggered the increase in headcount from 316 to 332. The increase in dollars spent was also attributable to an increase in occupancy costs from the addition of new offices (apart from the acquisitions) and an increase in bonus expense from the Company's improved revenue results. With improved operating leverage, selling, general and administrative expenses decreased as a percentage of revenue from 29.9% for the three months ended August 31, 2002 to 28.9% for the three months ended August 31, 2003.

Amortization and Depreciation Expense. Amortization of intangible assets increased to $306,000 in the first quarter of fiscal 2004 compared to $31,000 in the prior year's first quarter. In the current quarter, the Company estimated $120,000 as the amortization related to amortizable intangible assets from the three acquisitions consummated in the quarter. The Company is currently evaluating the allocation of the purchase price of the three acquisitions and expects this allocation to be complete no later than the third quarter of fiscal 2004. The final allocation could be materially different than current estimates and may result in the identification of different dollar amount of amortizable intangible assets than the Company has currently estimated. The Company is also amortizing intangible assets related to the TPC acquisition as well as the purchase of a United Kingdom practice in fiscal 2002. These intangible assets are amortizable through fiscal 2006. In the prior year first quarter, amortization expense related only to the amortization of the cost of the non-compete agreement entered into when the Company acquired LLC.

The Company accounts for goodwill acquired in a business combination and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." The Company is required to evaluate goodwill for impairment by 1) determining the individual reporting units giving rise to the existing goodwill; 2) allocating a fair value to each of the individual reporting units via such measures as market capitalization and analysis of future cash flows; and 3) comparing such fair value amounts to the carrying values of the reporting units. An impairment loss is recognized if the carrying amount of the reporting unit exceeds its fair value. Based on its most recent analysis, the Company has determined that there was no impairment of intangible assets as of August 31, 2003.

Depreciation expense increased from $315,000 for the three months ended August 31, 2002 to $387,000 for the three months ended August 31, 2003. This increase reflects the impact of the three acquisitions in the current quarter, the other offices opened since August 2002 and our investment in information technology.

Interest Income. 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, 2003, the Company has $7 million in government-agency bonds with maturity dates in excess of one year from the balance sheet date. The bonds mature through July 2005 and have coupon rates ranging from 1.5% to 1.7%. These investments have been classified in the August 31, 2003 consolidated balance sheet as "held-to-maturity" securities.

During the first quarter of fiscal 2004, interest income was $172,000 compared to interest income of $338,000 in the quarter ended August 31, 2002. The decrease in interest income is a combination of a lower average cash balance available for investment in the current quarter and the lower interest rates available year over year. The cash balance available for investment decreased from the first quarter of fiscal 2003 to the first quarter of fiscal 2004 as the funds were used to consummate the three acquisitions. The Company earned approximately 1.4%, annualized, on its money market, commercial paper and marketable securities investments during the quarter.

Income Taxes. The provision for income taxes increased from $1.7 million for the three months ended August 31, 2002 to $2.3 million for the three months ended August 31, 2003 as a result of the increase in the Company's pre-tax income, offset by a minor decrease in the effective tax rate anticipated for fiscal 2004. The effective tax rates were approximately 40.5% and 41.0% for the three months ended August 31, 2003 and 2002, respectively, which differs from the federal statutory rate primarily due to state taxes, net of federal benefit. The Company's tax rate decreased slightly from fiscal 2003 to fiscal 2004 with a shift in provision for state taxes toward states with lower tax rates. 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 our existing cash and cash equivalents, marketable securities, 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.

On August 22, 2001, we entered into 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 is payable on the Credit Agreement at various intervals no less frequently than quarterly. There is an annual facility fee of 0.25% payable on the unutilized portion of the Credit Agreement. The Credit Agreement, which originally expired September 1, 2003, has been extended to December 1, 2003. The Company is negotiating to extend the agreement for an additional two years. As of August 31, 2003, the Company had no outstanding borrowings under the revolving credit facility.

Net cash used in operating activities was $3.3 million for the three months ended August 31, 2003 compared to cash provided by operating activities of $218,000 for the three months ended August 31, 2002. The net decrease in cash provided by operations was caused primarily by 1) payment for the increased obligation for the Company’s fiscal 2003 incentive bonus plan for management as compared to the amount required in the prior year, as the Company’s revenue increased in fiscal 2003; 2) a lower accrued salary balance at August 31, 2003 compared to the prior year; and 3) the reduction of payables during the quarter. These unfavorable operating cash flow activities were offset by the decrease in the Company’s accounts receivable in the first quarter of fiscal 2004 (net of the receivables acquired from RC.NL). The Company’s working capital includes $30.9 million in cash and cash equivalents at August 31, 2003.

Net cash used in investing activities was $16.9 million for the first three months of fiscal 2004 compared to cash provided by investing activities of $11.8 million in the first three months of fiscal 2003. The Company used approximately $30 million in cash in the current quarter to complete the aforementioned three acquisitions, including transaction costs. In addition, the Company spent approximately $64,000 on leasehold improvements, office equipment and information technology upgrades in the first three months of fiscal 2004, down from $207,000 in the previous year’s first quarter. The Company also had $13 million in long-term investments redeemed by the issuer in fiscal 2004, compared to $12 million in 2003. These investments, classified as long-term investments as of May 31, 2003 and May 31, 2002, were obligations of various United States government programs that contained a “call” feature at the discretion of the issuer of the bonds. During the first three months of both fiscal 2004 and 2003, the issuer redeemed the bonds.

Net cash provided by financing activities totaled $3.0 million for the three months ended August 31, 2003 compared to $1.3 million for the three months ended August 31, 2002. The increased volume of stock options exercised in fiscal 2004 caused this change.

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, existing availability under our revolving line of credit 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.

Our credit agreement currently prohibits us from declaring or paying any dividends or other distributions on any shares of our capital stock other than dividends payable solely in shares of capital or the stock of our subsidiaries. With limited exceptions, the covenants in our credit agreement limit our aggregate capital expenditures during each fiscal year. The aggregate amount of capital expenditures permitted by our credit agreement during fiscal 2004 is $5.0 million.

In October 2002, our board of directors approved a stock repurchase program, authorizing the repurchase of up to 1.5 million shares of our common stock. As of August 31, 2003, we had not repurchased any shares of our common stock under this program.

Recent Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, “Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections”. Among other matters, SFAS No. 145 rescinds SFAS No. 4, “Reporting Gains and Losses from Extinguishment of Debt” thereby eliminating the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in Accounting Principles Board (“APB”) Opinion No. 30, “Reporting Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions” will be used to classify those gains and losses. The Company adopted SFAS No. 145 effective June 1, 2002 and has reclassified the costs incurred in connection with the early extinguishment of debt in fiscal 2001 as interest expense with the related income tax benefit included as a component of the provision for income taxes. Refer to the “Interest Expense” accounting policy in Note 2 of the “Notes to Consolidated Financial Statements” included in the Company’s Report on Form 10-K for its fiscal year ended May 31, 2003 with respect to such reclassification.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", which had required a liability for an exit cost be recognized at the date of a company's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002, and requires that a liability for an exit cost be recognized when incurred. This statement also requires that the initial measurement of this liability be at fair value. Should we have a restructuring activity in the future, this statement would primarily impact the timing of the recognition of the expense. The Company adopted SFAS No. 146 effective January 1, 2003. The adoption of this statement did not have a material impact on its financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This interpretation provides for additional disclosures to be made by a guarantor in its interim and annual financial statements about obligations that it has. This interpretation is effective for financial statements of interim or annual periods ending after December 15, 2002. The Company adopted the disclosure provision of this interpretation effective March 1, 2003. The adoption of this statement did not have a material impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting," to require prominent disclosure in both the annual and interim financial statements about the method of accounting and the effect on reported net income of an entity s accounting policy decisions with respect to stock-based employee compensation. The Company adopted the disclosure provisions of this statement effective March 1, 2003. The adoption did not have a material impact on the Company's financial position or results of operations, as it will continue to account for stock-based compensation under APB No. 25.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities—an interpretation of Accounting Research Bulletin No. 51." The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. This new model for consolidation applies to an entity in which either (1) the powers or rights of the equity holders do not give them sufficient decision making powers or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. FIN 46 requires a variable interest entity to be consolidated into the company that is subject to a majority of the risk of loss from the variable interest entity's activities or that is entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. For entities created on or prior to January 31, 2003, the consolidation requirements apply in the first fiscal year or interim period beginning after December 15, 2003. The Company does not believe the adoption of this statement will have a material impact on its financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified after June 30, 2003. The Company does not believe the adoption of this statement will have a material impact on its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not believe that the adoption of SFAS 150 will have a material impact to its consolidated financial position, results of operations or cash flows.

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 each of these items 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;
- employees loaned by the Big Four accounting firms;
- 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.

The U.S. economy has experienced an economic downturn, and our business has been affected by the economic downturn. As the general level of economic activity has slowed, our clients have delayed or canceled plans that involve professional services, particularly outsourced professional services. Consequently, we have experienced fluctuations in demand for our associates. 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 an economic downturn decreasing the demand for outsourced professional services, our business is likely to be materially adversely affected.

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 but then rebounded in fiscal 2003 to revenue of $202.0 million. Although revenue has increased in the first three months of fiscal 2004 compared to the same period in the prior year (not including revenues from acquisitions), 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;
- maintain margins in the face of pricing pressures; and
- manage costs.

Even if we are able to renew 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 occurs, 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;
- 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 in the future, and these acquisitions could disrupt our business.

We may 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 successfully 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;
- incurrence of significant non-recurring charges;
- incurrence of 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 any of the other key members of our senior management team could significantly disrupt our operations. Key members of our senior management team include Karen M. Ferguson, an executive vice president, John D. Bower, our 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.

Our quarterly financial results have fluctuated in the past and we believe they will continue to do so in the future. 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;
- the entry of new competitors into any of our markets;
- changes in demand for our services by our clients;
- the number of associates eligible for our offered benefits as their average length of employment with us 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.

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.

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 second 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.

The Company’s board of directors has adopted a stockholder rights plan, which was described in the Company’s May 31, 2003 Report on Form 10-K. 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.

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 Connection brand name is essential to our business. We have obtained U.S. registrations on our service mark and logo, Registration No. 2,516,522 registered December 11, 2001, and No. 2,524,226 registered January 1, 2002 and No. 2,613,873, registered September 3, 2002. We have been aware from time to time of other companies using the name “Resources Connection” or some variation thereof. 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 Connection” 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 are required to change our name.

Our clients may be confused by the presence of competitors and other companies that have names similar to our name.

We are aware of other companies using the name "Resources Connection" or some variation thereof. The existence of these companies may confuse our clients, thereby impeding our ability to build our brand identity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. At the end of the first quarter of fiscal 2004, we had approximately $37.9 million of cash, highly liquid short-term investments and long-term marketable securities. 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. To date, our foreign operations have not been significant to our overall operations, and our exposure to foreign currency exchange rate risk has been low. However, as our strategy to continue expanding foreign operations progresses, we expect more of our revenues will be derived from foreign operations denominated in the currency of the applicable markets. As a result, our operating results could become subject to fluctuations based upon changes in the exchange rates of foreign currencies in relation to the U.S. dollar. Although we intend to monitor our exposure to foreign currency fluctuations, including the use of financial hedging techniques when we 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 2004, 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, 2003 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, 2003 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. Changes in 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 and Reports on Form 8-K

a) Exhibits

10.17	Amendment No. 3 to Loan Documents, dated August 1, 2003 by and among Resources Connection, Inc., Resources Connection LLC and Bank of America, N.A.*
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

b) Reports on Form 8-K

The registrant filed or furnished the following current reports on Form 8-K during the quarter covered by this report:

Form 8-K (item 12), furnished on July 15, 2003, covering a press release announcing the Company’s financial results for the quarter and year ended May 31, 2003.

Form 8-K (item 2), filed on July 30, 2003, covering the acquisition by the Company of all of the outstanding capital stock of Ernst & Young Executive Temporary Management B.V.

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 14, 2003	By: /s/ DONALD B. MURRAY
	Donald B. Murray **President and Chief Executive Officer**
Date: October 14, 2003	By: /s/ STEPHEN J. GIUSTO
	Stephen J. Giusto **Chief Financial Officer, Executive Vice President of Corporate Development and Secretary** **(Principal Financial Officer)**

AMENDMENT NO. 3 TO LOAN DOCUMENTS

This Amendment No. 3 (the "Amendment") dated as of August 1, 2003, is between Bank of America, N.A. ("Lender") and Resources Connection, Inc. and Resources Connection LLC ("Borrower").

RECITALS

A. Borrower has executed various documents concerning credit extended by the Lender, including, without limitation, the following documents (the "Loan Documents"):

1. A certain Loan Agreement dated as of August 22, 2001 (together with any previous amendments, the "Loan Agreement").

2. A certain Promissory Note dated as of August 22, 2001 in the original principal amount of $10,000,000.00 (together with any previous amendments, the "Note").

B. Lender and Borrower desire to amend the Loan Documents.

AGREEMENT

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

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

(a) The paragraph entitled "Acquisitions" **is hereby amended to read in its entirety as follows:**

"**Acquisitions.** Acquire or purchase a business or its assets for a consideration, including cash or stock of Borrower and including assumption of direct or contingent debt, in excess of Forty Million Dollars ($40,000,000) in the aggregate between the effective date of this Agreement and May 31, 2003. Between June 1, 2003 and December 1, 2003, the dollar limitation set forth in the immediately preceding sentence shall be deemed to be increased to Forty-Five Million Dollars ($45,000,000) in the aggregate for all such acquisitions or purchases since the effective date of this Agreement. Borrower acknowledges and agrees that it may not use the proceeds of Advances under this Agreement to finance any acquisition or purchase permitted hereunder."

3. Amendments to Exhibit A to Business Loan Agreement. The Exhibit is hereby amended as follows:

(a) In the paragraph entitled "Availability Period" **the date "September 1, 2003" is changed to "December 1, 2003".**

4. Amendments to Note. The Note is hereby amended as follows:

(a) In the paragraph entitled "Payment" **the date "September 1, 2003" is changed to "December 1, 2003".**

5. Representations and Warranties. When Borrower signs this Amendment, Borrower represents and warrants to Lender that: (a) there is no event which is, or with notice or lapse of time or both would be, a default under the Loan Documents except those events, if any, that have been disclosed in writing to Lender or waived in writing by Lender, (b) the representations and warranties in the Loan Documents 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 Borrower is bound, and (d) this Amendment is within Borrower's powers, has been duly authorized, and does not conflict with any of Borrower's organizational papers.

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

7. 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.

8. **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.

/s/ DONALD B. MURRAY
By: Donald B. Murray

Lender:

Bank of America, N.A.

/s/ CYNTHIA K. GOODFELLOW
By: Cynthia K. Goodfellow, Vice President

Borrower:
Resources Connection, Inc.

/s/ DONALD B. MURRAY
By: Donald B. Murray

EXHIBIT 31.1

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)) for the registrant and have:

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

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

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

5. The registrant's other certifying officer 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 14, 2003

/s/ Donald B. Murray
Donald B. Murray
President and Chief Executive Officer

EXHIBIT 31.2

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)) for the registrant and have:

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

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

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

5. The registrant's other certifying officer 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 14, 2003

/s/ Stephen J. Giusto
Stephen J. Giusto
Chief Financial Officer
and Executive Vice President of Corporate Development

EXHIBIT 32

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 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, 2003 (the “Report) fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; 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 14, 2003

/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.