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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended August 31, 2004

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 1, 2004, 23,350,360 shares of the registrant's common stock, $0.01 par value per share, were outstanding.

RESOURCES CONNECTION, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RESOURCES CONNECTION, INC.

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	August 31, 2004	May 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,276,000	$ 51,839,000
Trade accounts receivable, net of allowance for doubtful accounts of $4,075,000 and $3,262,000 as of August 31, 2004 and May 31, 2004, respectively	65,388,000	59,766,000
Prepaid expenses and other current assets	2,959,000	3,955,000
Prepaid income taxes	—	535,000
Deferred income taxes	3,674,000	3,674,000
Total current assets	108,297,000	119,769,000
Investments in marketable securities	34,000,000	18,000,000
Goodwill	79,351,000	76,048,000
Intangible assets, net	4,594,000	5,005,000
Property and equipment, net	6,652,000	6,655,000
Other assets	906,000	786,000
Total assets	$ 233,800,000	$ 226,263,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 11,335,000	$ 13,700,000
Accrued salaries and related obligations	18,292,000	27,059,000
Other liabilities, including income taxes payable	5,408,000	482,000
Total current liabilities	35,035,000	41,241,000
Deferred income taxes	4,688,000	4,688,000
Total liabilities	39,723,000	45,929,000
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; 23,480,000 and 23,355,000 shares issued; and 23,326,000 and 23,201,000 outstanding as of August 31, 2004 and May 31, 2004, respectively	235,000	233,000
Additional paid-in capital	111,128,000	108,849,000
Deferred stock compensation	(98,000)	(168,000)
Accumulated other comprehensive gain	321,000	514,000
Retained earnings	82,795,000	71,210,000
Treasury stock at cost, 154,000 shares at both August 31, 2004 and May 31, 2004	(304,000)	(304,000)
Total stockholders' equity	194,077,000	180,334,000
Total liabilities and stockholders' equity	$ 233,800,000	$ 226,263,000

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended	
	August 31, 2004	**August 31, 2003**
Revenue	$ 115,401,000	$ 59,541,000
Direct cost of services, primarily payroll and related taxes for professional services employees	69,934,000	36,055,000
Gross profit	45,467,000	23,486,000
Selling, general and administrative expenses	25,181,000	17,229,000
Amortization of intangible assets	411,000	306,000
Depreciation expense	543,000	387,000
Income from operations	19,332,000	5,564,000
Interest income	304,000	172,000
Income before provision for income taxes	19,636,000	5,736,000
Provision for income taxes	8,051,000	2,323,000
Net income	$ 11,585,000	$ 3,413,000
Net income per common share:		
Basic	$ 0.50	$ 0.15
Diluted	$ 0.46	$ 0.15
Weighted average common shares outstanding:		
Basic	23,276,000	22,253,000
Diluted	24,980,000	23,449,000

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Three Months Ended	
	August 31, 2004	August 31, 2003
COMMON STOCK—SHARES:		
Balance at beginning of period	23,355,000	22,251,000
Exercise of stock options	74,000	255,000
Issuance of common stock for the acquisition of Nordic Spring	16,000	—
Issuance of common stock under Employee Stock Purchase Plan	35,000	36,000
Balance at end of period	23,480,000	22,542,000
COMMON STOCK—PAR VALUE:		
Balance at beginning of period	$ 233,000	$ 222,000
Exercise of stock options	1,000	3,000
Issuance of common stock for the acquisition of Nordic Spring	—	—
Issuance of common stock under Employee Stock Purchase Plan	1,000	—
Balance at end of period	$ 235,000	$ 225,000
ADDITIONAL PAID-IN CAPITAL:		
Balance at beginning of period	$ 108,849,000	$ 86,676,000
Exercise of stock options	924,000	2,217,000
Issuance of common stock for the acquisition of Nordic Spring	547,000	—
Issuance of common stock under Employee Stock Purchase Plan	808,000	706,000
Balance at end of period	$ 111,128,000	$ 89,599,000
DEFERRED STOCK COMPENSATION:		
Balance at beginning of period	$ (168,000)	$ (480,000)
Amortization of deferred stock compensation	70,000	77,000
Balance at end of period	$ (98,000)	$ (403,000)
ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS):		
Balance at beginning of period	$ 514,000	$ 293,000
Translation adjustments	(193,000)	2,000
Balance at end of period	$ 321,000	$ 295,000
NOTES RECEIVABLE FROM STOCKHOLDERS:		
Balance at beginning of period	$ —	$ (55,000)
Repayment of notes receivable	—	55,000
Balance at end of period	$ —	$ —
RETAINED EARNINGS:		
Balance at beginning of period	$ 71,210,000	$ 46,876,000
Net income	11,585,000	3,413,000
Balance at end of period	$ 82,795,000	$ 50,289,000
TREASURY STOCK—SHARES:		
Balance at beginning of period	(154,000)	(141,000)
Repurchase of shares	—	—
Balance at end of period	(154,000)	(141,000)
TREASURY STOCK—COST:		
Balance at beginning of period	$ (304,000)	$ (1,000)
Repurchase of shares	—	—
Balance at end of period	$ (304,000)	$ (1,000)
COMPREHENSIVE INCOME:		
Net income	$ 11,585,000	$ 3,413,000

Translation adjustments	(193,000)	2,000
Total comprehensive income	$ 11,392,000	$ 3,415,000

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	August 31, 2004	August 31, 2003
Cash flows from operating activities:		
Net income	$ 11,585,000	$ 3,413,000
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	954,000	693,000
Amortization of deferred stock compensation	70,000	77,000
Bad debt expense	865,000	107,000
Changes in operating assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	(6,487,000)	1,003,000
Prepaid expenses and other current assets	996,000	573,000
Income taxes	5,607,000	2,183,000
Other assets	(120,000)	669,000
Accounts payable and accrued expenses	(2,365,000)	(5,098,000)
Accrued salaries and related obligations	(8,767,000)	(6,938,000)
Other liabilities	(146,000)	53,000
Net cash provided by (used in) operating activities	2,192,000	(3,265,000)
Cash flows from investing activities:		
Redemption of marketable securities	—	20,000,000
Purchase of marketable securities	(16,000,000)	(7,000,000)
Purchase of Nordic Spring	(2,785,000)	—
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	(540,000)	(64,000)
Net cash used in investing activities	(19,325,000)	(16,928,000)
Cash flows from financing activities:		
Proceeds from exercise of stock options	925,000	2,220,000
Proceeds from issuance of common stock under Employee Stock Purchase Plan	809,000	706,000
Repayment of notes receivable from stockholders	—	55,000
Net cash provided by financing activities	1,734,000	2,981,000
Effect of exchange rate changes on cash	(164,000)	72,000
Net decrease in cash	(15,563,000)	(17,140,000)
Cash and cash equivalents at beginning of period	51,839,000	48,078,000
Cash and cash equivalents at end of period	$ 36,276,000	$ 30,938,000

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, 2004 and 2003

1. Description of the Company and its Business

Resources Connection, Inc. (“Resources Connection”) was incorporated on November 16, 1998. Resources Connection provides professional services to a variety of industries and enterprises through its subsidiaries, Resources Connection LLC (“LLC”), RECN of Texas, LP (“Texas”), Resources Audit Solutions, LLC (“RAS”), and eight foreign subsidiaries (collectively the “Company”). LLC, which commenced operations in June 1996, and Texas, which was formed in May 2002, and the various foreign subsidiaries, provide clients with experienced professionals who specialize in accounting, finance, information technology, human resources and supply chain management services 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 or co-sourced basis. The Company has offices in the United States, Australia, Canada, Hong Kong, Japan, the Netherlands, Sweden, Taiwan and the United Kingdom. Resources Connection is a Delaware corporation. LLC and RAS are Delaware limited liability companies. Texas is a limited partnership formed in Texas.

The Company’s fiscal year consists of 52 or 53 weeks, ending on the last Saturday in May. The actual quarter end dates for the first quarter of fiscal 2005 and 2004, each consisting of 13 weeks, were August 28, 2004 and August 30, 2003, respectively. For convenience, all references herein to years or periods are to years or periods ended May 31 or August 31, respectively.

2. Summary of Significant Accounting Policies

Interim Financial Information

The financial information as of and for the three months ended August 31, 2004 and 2003 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, 2004, 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 $34 million in investments classified as long-term as of August 31, 2004 are callable at the discretion of the issuer although their stated maturity dates are greater than one year from the balance sheet date.

Stock-Based Compensation

On December 31, 2002, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 148, “Accounting for Stock Based Compensation Transition and Disclosure,” which amends SFAS No. 123, “Accounting for Stock Based Compensation”. SFAS No. 148 requires more prominent and frequent disclosures about the effects of stock-based compensation. The Company will continue to account for its stock-based compensation according to the provisions of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”.

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

	Three months ended August 31,	
	2004	2003
Net income, as reported	$ 11,585,000	$ 3,413,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,608,000)	(1,330,000)
Pro forma net income	$ 8,977,000	$ 2,083,000
Net income per common share:		
Basic-as reported	$ 0.50	$ 0.15
Basic-pro forma	$ 0.39	$ 0.09
Diluted-as reported	$ 0.46	$ 0.15
Diluted-pro forma	$ 0.36	$ 0.09

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 130,000 and 933,000 were not included in the diluted earnings per share amounts for the three months ended August 31, 2004 and 2003, respectively, as their effect would have been anti-dilutive. For the three months ended August 31, 2004 and 2003, potentially dilutive securities consisted solely of stock options and resulted in potential common shares of 1,704,000 and 1,196,000, respectively.

4. Acquisition

On August 27, 2004, the Company acquired approximately 80% of the shares of Nordic Spring Management Consulting AB (“Nordic Spring”) of Stockholm, Sweden for $3.3 million. This acquisition expands the Company’s European footprint into the Nordic/Scandinavian region. Consideration paid consisted of approximately $2.8 million in cash and approximately 16,000 shares of common stock with a fair value of approximately $500,000. There were approximately $150,000 of transaction costs. For purposes of computing the purchase price, the value of the common stock of $34.30 was determined by taking the average closing price of the Company’s common stock as quoted on NASDAQ between August 25, 2004 and August 31, 2004. The acquisition agreement also provides for an additional earn-out payment if Nordic Spring meets certain financial goals for calendar year 2004. Resources Connection will purchase the remaining 20% of the shares of Nordic Spring in the first quarter of fiscal 2007. The purchase price is dependent upon Nordic Spring’s operating income (before interest and depreciation) for fiscal 2006 and will consist of consideration of 50% in cash and 50% in the Company’s common stock.

In accordance with SFAS No. 141, “Business Combinations”, the Company will allocate the purchase price based on the fair value of the assets acquired and liabilities assumed. As of August 31, 2004, $3.3 million of the excess purchase price has been allocated to goodwill, pending completion of the Company’s valuation. The Company will consider a number of factors in performing this valuation, including a valuation of the identifiable intangible assets. Pro forma disclosures related to this acquisition are not included as such disclosures are not material.

5. Intangible Assets and Goodwill

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

	As of August 31, 2004			As of May 31, 2004		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships (2 – 4 years)	$ 4,849,000	$ (1,486,000)	$ 3,363,000	$ 4,849,000	$ (1,170,000)	$ 3,679,000
Associate and customer database (1 – 5 years)	1,734,000	(929,000)	805,000	1,734,000	(878,000)	856,000
Non-compete agreements (1 –4 years)	630,000	(630,000)	—	630,000	(630,000)	—
Developed technology (3 years)	520,000	(176,000)	344,000	520,000	(132,000)	388,000
Trade name and trademark (indefinite life)	82,000	—	82,000	82,000	—	82,000
Total	$ 7,815,000	$ (3,221,000)	$ 4,594,000	$ 7,815,000	$ (2,810,000)	$ 5,005,000
Goodwill (indefinite life)	$ 83,968,000	$ (4,617,000)	$ 79,351,000	$ 80,665,000	$ (4,617,000)	$ 76,048,000

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

The Company recorded amortization expense for the three months ended August 31, 2004 and 2003 of $411,000 and $306,000, respectively. Estimated intangible asset amortization expense (based on existing intangible assets) for the years ending May 31, 2005, 2006, 2007, 2008 and 2009 is $1,647,000, $1,613,000, $1,269,000, $362,000 and $32,000, respectively.

The following is a roll forward of the Company’s goodwill balance:

	Gross	Accumulated Amortization	Net
Goodwill, as of May 31, 2004	$ 80,665,000	$ (4,617,000)	$ 76,048,000
Acquisitions	3,333,000	—	3,333,000
Impact of foreign currency exchange rate changes	(30,000)	—	(30,000)
Goodwill, as of August 31, 2004	$ 83,968,000	$ (4,617,000)	$ 79,351,000

6. Segment Reporting

In accordance with the requirements of SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” the Company discloses information regarding operations outside of the United States. The Company operates as one segment. The accounting policies for the domestic and international operations are the same as those described in Note 1 of the Company’s 2004 Annual Report on Form 10-K. Summarized financial information regarding the Company’s domestic and international operations is shown in the following table (revenue for the three months ended August 31, 2003 includes the Netherlands from July 15, 2003).

	Revenue for the three months ended August 31,		Long-Lived Assets as of	
	2004	2003	August 31, 2004(1)	May 31, 2004(1)
United States	$ 96,868,000	$ 51,574,000	$ 5,049,000	$ 4,890,000
The Netherlands	10,923,000	4,963,000	1,044,000	1,202,000
Other	7,610,000	3,004,000	559,000	563,000
Total	$ 115,401,000	$ 59,541,000	$ 6,652,000	$ 6,655,000

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

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, 2004 (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 1) accounting and finance, such as mergers and acquisitions due diligence, financial analyses (e.g., product costing and margin analyses), corporate reorganizations, budgeting and forecasting, audit preparation, public entity reporting and tax-related projects; 2) information management services, such as financial system/enterprise resource planning implementation and post implementation optimization; 3) human resources management services, such as compensation program design and implementation; 4) internal audit services, (provided via our subsidiary Resources Audit Solutions or "RAS") such as documenting internal controls and assisting clients with their compliance efforts under the Sarbanes-Oxley Act of 2002 ("Sarbanes"); and 5) supply chain management ("SCM") services, such as leading strategic sourcing efforts, negotiating contracts and performing tactical purchasing.

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 several investors. 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. The following table summarizes the opening date of our offices, our expansion overseas and the creation of additional service lines.

Fiscal Year	Number of Domestic Offices Opened	International Operations Established	Service Line Established
1997 (initial year)	Seven		Accounting and finance
1998	Nine		
1999	Ten		Information management
2000	Four	Toronto, Canada; Taipei, Taiwan; Hong Kong, People's Republic of China	Human resources management
2001	Nine	London, England	
2002	Two		
2003	Six	Birmingham, England	Resources Audit Solutions; Supply chain management (via acquisition)
2004	Two	The Netherlands (5 locations via acquisition); Melbourne & Sydney, Australia (via acquisition); Tokyo, Japan	
2005	None in first quarter	Sweden	Legal

In the first quarter of fiscal 2004, we completed three transactions to enhance our international presence as well as our ability to assist clients with the compliance efforts under Sarbanes. The largest of the three transactions was the all-cash acquisition for $29.8 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 BV ("RC.NL"), is considered a market leader in the interim management industry in the Netherlands. We believe this acquisition provides a foundation in continental Europe and will allow us to market to our current and prospective multinational clients seeking an alternative to the Big Four firms, particularly in light of concerns about auditor independence. RC.NL, which had seven offices at the date of acquisition, has consolidated two of the offices, in an effort to streamline operations and reduce costs during the European economic slowdown. RC.NL contracted with, or employed, over 245 professional service associates on assignment as of August 31, 2004.

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

In July 2003, we acquired 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 our clients can use to assist in complying with Sarbanes, among other initiatives.

On August 27, 2004, the Company acquired approximately 80% of Nordic Spring Management Consulting AB (Nordic Spring) of Stockholm, Sweden for $3.3 million. This acquisition expands the Company's European footprint into the Nordic/Scandinavian region. Consideration paid consisted of approximately $2.8 million in cash and approximately 16,000 shares of common stock with a fair value of approximately $500,000. The acquisition agreement also provides for an additional earn-out payment if Nordic Spring meets certain financial goals for calendar year 2004. Resources Connection will purchase the remaining 20% of the shares of Nordic Spring in the first quarter of fiscal 2007. The purchase price is dependent upon Nordic Spring's operating income (before interest and depreciation) for fiscal 2006 and will consist of consideration of 50% in cash and 50% in the Company's common stock.

Activity in the first quarter of 2005 also included the introduction of legal services in a limited number of offices. This practice provides attorneys, paralegals and contract managers to assist clients and law firms with project-based or peak period needs.

As of August 31, 2004, we served our clients through 49 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. Our goodwill and certain other intangible assets are not subject to periodic amortization over their estimated useful lives. These assets are now considered to have an indefinite life and their carrying values are required to be assessed by us for impairment at least annually. Depending on future market values, our operating performance and other factors, these assessments could potentially result in impairment reductions of these intangible assets in the future.

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, 2004 Compared to Three Months Ended August 31, 2003

The comments discussed below for the three months ended August 31, 2003 include the results of operations for a full quarter for Resources Connection Australia Pty Ltd; from July 15, 2003 for RC.NL; and from July 30, 2003 for policyIQ. There were no results of operations included for the three months ended August 31, 2004 for Nordic Spring as the acquisitions occurred at the end of the quarter. The acquisitions in the first quarter of fiscal 2004 are referred to in the comments below as "the 2004 acquisitions".

Revenue. Revenue increased $55.9 million, or 94.0%, to $115.4 million for the three months ended August 31, 2004 from $59.5 million for the three months ended August 31, 2003. The 2004 acquisitions contributed $6.9 million to the growth in revenues. Without the additional revenue from the acquisitions, revenues increased 82.4%. This increase was triggered by the continued expansion of our scope of services and improved overall demand for our services, resulting in more billable hours for our associates and an improvement in rate per hour. We believe our services expanded in all of our service lines by increasing market awareness of our ability to provide those types of services. In particular, RAS engagements increased significantly in the quarter. We believe one of the reasons for the increase in RAS engagements is the need generated by companies with calendar year-end deadlines for compliance with Sarbanes. Additional regulatory changes, such as the New York Stock Exchange requirement that all listed companies maintain or create an internal audit department, may generate opportunities for expanding our services. Average bill rates improved by 8.5% compared to the prior year average bill rate. The increase in revenue is also reflected by the increase in the number of associates on assignment from 1,468 at the end of the first quarter of fiscal 2004 to 2,370 at the end of the first quarter of fiscal 2005. While general economic conditions have improved in the United States in the first quarter of fiscal 2005 compared to fiscal 2004, the market of our Dutch practice remains difficult. RC.NL elected to consolidate two offices in the first quarter of fiscal 2005 to streamline their operation during this period.

Our clients do not sign long-term contracts with us. Therefore, our future revenue or operating results cannot be reliably predicted from previous quarters or from extrapolation of past results.

We operated 63 and 65 offices in the first quarters of fiscal 2005 and fiscal 2004, respectively.

Direct Cost of Services. Direct cost of services increased $33.8 million, or 93.6%, to $69.9 million for the three months ended August 31, 2004 from $36.1 million for the three months ended August 31, 2003. 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 impact of the services provided by associates employed by the 2004 acquisitions; overall, the average pay rate per hour increased by 8.3% year-over-year. The direct cost of services as a percentage of revenue was constant at 60.6% for both the three months ended August 31, 2004 and 2003. Although the direct cost of services percentage was constant, there were changes in the components of the cost of services. The volume of zero margin client expense reimbursements increased in the first quarter of fiscal 2005, as the Company's projects requiring associate travel increased significantly, and there were two paid holidays in the first quarter of fiscal 2005 compared to only one in the fiscal 2004 first quarter. These increases to the cost of services percentage were offset by spreading certain variable costs, such as medical insurance, over a larger revenue base.

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

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased as a percentage of revenue from 28.9% for the quarter ended August 31, 2003 to 21.8% for the quarter ended August 31, 2004 as a result of improved leverage. Selling, general and administrative expenses increased $8.0 million, or 46.5%, to $25.2 million for the three months ended August 31, 2004 from $17.2 million for the three months ended August 31, 2003. In particular, compensation and related benefit expenses increased as management and administrative headcount grew from 448 at the end of the first quarter of fiscal 2004 to 478 at the end of the first quarter of fiscal 2005. The increase in dollars spent was attributable to the increase in salaries and benefit costs driven by the larger headcount and occupancy and related costs from new offices opened and from the incremental impact of the 2004 acquisitions. Other increases in spending in the 2005 fiscal quarter were: marketing and advertising expenses, primarily in the Netherlands practice; bonus expense as a result of the Company's improved revenue results; and bad debt expense in line with its receivable balance growth.

The Company anticipates its selling, general and administrative expense as a percentage of revenue will increase in the remaining quarters of fiscal 2005, as it recruits certain key management positions, especially in its RAS practice, to support and grow the current revenue level. However, there can be no assurance that the Company will be able to recruit and identify appropriate candidates. The Company's believes its selling, general and administrative expense percentage of revenue will typically be about 25.0% as compared to the 21.8% in the first quarter of fiscal 2005.

Amortization and Depreciation Expense. Amortization of intangible assets increased to $411,000 in the first quarter of fiscal 2005 compared to $306,000 in the prior year's first quarter. The increase is related to the acquisitions in the first quarter of fiscal 2004. During the third quarter of fiscal 2004, the Company completed its allocation of the purchase price of the acquisitions, and considered a number of factors in performing this valuation, including a valuation of identifiable intangible assets. As a result, approximately $5.5 million of the purchase price was assigned to amortizable intangible assets related to contractually based customer relationships, acquired databases of potential associates and technology related to the policyIQ software. These intangibles will be amortized over one to five years. The Company is also amortizing intangible assets related to the SCM acquisition through fiscal 2006. In the prior year first quarter, amortization expense related primarily to the amortization of the SCM intangibles assets and an estimate of the amortization expense related to the 2004 acquisitions. Amortization expense in the subsequent quarters of fiscal 2005 is likely to increase slightly when the allocation of purchase price of Nordic Spring is completed.

Depreciation expense increased from $387,000 for the three months ended August 31, 2003 to $543,000 for the three months ended August 31, 2004. This increase reflects the impact of a full quarter of depreciation related to the acquisitions, the other offices opened since August 2003 and investments in information technology.

Interest Income. During the first quarter of fiscal 2005, interest income was $304,000 compared to interest income of $172,000 in the quarter ended August 31, 2003. The increase in interest income is a combination of a higher average cash balance available for investment in the first quarter of fiscal 2005 and the improved interest rates available year over year. The Company earned approximately 1.7%, annualized, on its investments during the quarter.

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, 2004, the Company has $34 million in government-agency bonds with maturity dates in excess of one year from the balance sheet date. The bonds mature through August 2006 and have coupon rates ranging from 2.0% to 3.4%. These investments have been classified in the August 31, 2004 consolidated balance sheet as "held-to-maturity" securities.

Income Taxes. The provision for income taxes increased from $2.3 million for the three months ended August 31, 2003 to $8.1 million for the three months ended August 31, 2004 as a result of the increase in the Company's pre-tax income. The effective tax rate was approximately 41.0% for both the three months ended August 31, 2004 and 2003, which differs from the federal statutory rate primarily due to state taxes, net of federal benefit. Periodically, the Company reviews the components of both book and taxable income to analyze the adequacy of the provision. There can be no assurance that the Company's effective tax rate will not increase in the future.

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

Liquidity and Capital Resources

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

The Company's original August 2001 $10.0 million unsecured revolving credit facility with Bank of America has been replaced effective March 26, 2004 with a new $10.0 million unsecured revolving credit facility with substantially the same terms (the "Credit Agreement"). The Credit Agreement allows the Company to choose the interest rate applicable to advances. The interest rate options are Bank of America's prime rate, a London Inter-Bank Offered ("LIBOR") rate plus 1.5% or Bank of America's Grand Cayman Banking Center ("IBOR") rate plus 1.5%. Interest, if any, is payable monthly. There is an annual facility fee of 0.25% payable on the unutilized portion of the Credit Agreement. The Credit Agreement expires December 1, 2005. As of August 31, 2004, the Company had no outstanding borrowings under the revolving credit facility and is in compliance with all covenants included in the Credit Agreement.

Net cash provided by operating activities was $2.2 million for the three months ended August 31, 2004 compared to cash used in operations of $3.3 million for the three months ended August 31, 2003. Cash provided by operations resulted primarily from the increase in net income in the first quarter of fiscal 2005 to $11.6 million. Another component of the net increase in cash provided by operations was an increase in the accrual for the Company's income tax obligations, triggered by the higher net income. These favorable impacts on operating cash were offset by the Company's payment of its fiscal 2004 management incentive bonus and profit sharing plan for associates in the first quarter of fiscal 2005 as well as growth in the Company's accounts receivable balance in fiscal 2005 of $6.5 million, reflecting the Company's higher revenue in the first quarter of fiscal 2005 as compared to the first quarter of fiscal 2004. The Company's working capital includes $36.3 million in cash and cash equivalents as of August 31, 2004.

Net cash used in investing activities was $19.3 million for the first three months of fiscal 2005 compared to $16.9 million in the first three months of fiscal 2004. The Company used approximately $2.8 million in cash in the first quarter of fiscal 2005 to complete the acquisition of an 80% interest in Nordic Spring. In the prior year first quarter, the Company used approximately $30.0 million for the 2004 acquisitions and related transaction costs. In addition, the Company spent approximately $540,000 on leasehold improvements, office equipment and information technology upgrades in the first three months of fiscal 2005, up from $64,000 in the previous year's first three months. In the prior year, the Company had a net redemption of $13 million in long-term investments by the issuer in the first quarter; in the current year quarter, the Company has invested $16 million in securities with maturities greater than one year.

Net cash provided by financing activities totaled $1.7 million for the three months ended August 31, 2004 compared to $3.0 million for the comparable prior year period. Fewer stock options were exercised in the first quarter of fiscal 2005 compared to the prior year comparable period, resulting in this decline.

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.

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, 2004, we had not repurchased any shares of our common stock under this program.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

RISKS RELATED TO OUR BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We grew rapidly from our inception in 1996 until 2001 by opening new offices and by increasing the volume of services we provide through existing offices. We experienced a decline in revenue in fiscal 2002 to $181.7 million from $191.5 million in fiscal 2001, but then rebounded in fiscal 2003 to revenue of $202.0 million. Although revenue increased in fiscal 2004 by 37% compared to fiscal 2003 (excluding revenue from the 2004 acquisitions), and revenue has increased in the first quarter of fiscal 2005 compared to the prior year first quarter, there can be no assurance that we will continue to be able to maintain or expand our market presence in our current locations or to successfully enter other markets or locations. A significant portion of recent growth emanates from clients' demands related to initial compliance with certain sections of Sarbanes. Our ability to successfully grow our business will depend upon a number of factors, including our ability to:

- grow our client base;
- expand profitably into new cities;
- provide additional professional services lines;
- hire associates;

- maintain margins in the face of pricing pressures;
- manage costs; and
- maintain or grow revenues from clients who have engaged us for Sarbanes compliance.

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

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

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

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

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

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

- diversion of management’s attention from other business concerns;
- failure to integrate the acquired company with our existing business;
- failure to motivate, or loss of, key employees from either our existing business or the acquired business;
- potential impairment of relationships with our employees and clients;
- additional operating expenses not offset by additional revenue;
- incurring significant non-recurring charges;
- incurring additional debt with restrictive covenants or other limitations;
- dilution of our stock as a result of issuing equity securities; and
- assumption of liabilities of the acquired company.

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

Our future success depends upon the continued employment of Donald B. Murray, our chief executive officer, and Stephen J. Giusto, our chief financial officer. The departure of Mr. Murray, Mr. Giusto or 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 that may increase the volatility of our stock price.

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

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

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

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, 2004 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 are 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. To avoid confusion, we may consider changing the name of the operating company and that could entail risks.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. At the end of the first quarter of fiscal 2005, we had approximately $70.3 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. Prior to fiscal 2004, our foreign operations were not significant to our overall operations, and our exposure to foreign currency exchange rate risk was low. However, as our strategy to continue expanding foreign operations progresses, more of our revenues will be derived from foreign operations denominated in the currency of the applicable markets. 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 2005, 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, 2004 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, 2004 that materially affected, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any material legal proceedings.

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

On August 28, 2004, 15,950 shares of common stock were sold to Schultz och Lind Finans AB. The issuance was made as part of the acquisition of approximately 80% of Nordic Spring Management Consulting AB. The common stock issued in this acquisition was issued without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon the exemption from the registration requirements of the Securities Act set forth in Section 4(2) of the Securities Act. The securities are not convertible or exchangeable.

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

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.

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, 2004, covering a press release announcing the Company's financial results for the quarterly period and fiscal year ended May 31, 2004.

Form 8-K (item 8.01), furnished on August 26, 2004, covering a press release announcing the death of board member, C. Stephen Mansfield.

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SIGNATURES

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

	RESOURCES CONNECTION, INC.
Date: October 6, 2004	/s/ Donald B. Murray
	Donald B. Murray **President and Chief Executive Officer**
Date: October 6, 2004	/s/ Stephen J. Giusto
	Stephen J. Giusto **Chief Financial Officer, Executive Vice President of Corporate Development and Secretary** **(Principal Financial Officer)**

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 6, 2004

/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 6, 2004

/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 Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350, hereby certify that, to the best of their knowledge:

(i) the Report on Form 10-Q of the Company for the quarter ended August 31, 2004 (the "Report") fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; as amended; and

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

Dated: October 6, 2004

/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.