SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended August 31, 2001

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 [X] No [_]

As of October 8, 2001, 21,183,755 shares of the registrant's common stock, $.01 par value per share, were outstanding.

RESOURCES CONNECTION, INC.

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Part I--Financial Information

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RESOURCES CONNECTION, INC.

CONSOLIDATED BALANCE SHEETS

	August 31, 2001 (unaudited)	May 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,043,000	$ 34,503,000
Trade accounts receivable, net of allowance for doubtful accounts of $2,498,000 and $2,450,000 as of August 31, 2001 and May 31, 2001, respectively	23,918,000	23,908,000
Deferred income taxes	2,349,000	2,349,000
Prepaid expenses and other current assets	2,604,000	853,000
Total current assets	65,914,000	61,613,000
Goodwill, net	38,501,000	38,214,000
Property and equipment, net	4,942,000	4,085,000
Other assets	1,480,000	1,433,000
Total assets	$110,837,000	$105,345,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,518,000	$ 2,479,000
Accrued salaries and related obligations	11,124,000	15,046,000
Other liabilities	662,000	1,123,000
Total current liabilities	14,304,000	18,648,000
Deferred income taxes	951,000	665,000
Total liabilities	15,255,000	19,313,000
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; 21,214,000 and 20,735,000 shares issued and outstanding as of August 31, 2001 and May 31, 2001, respectively	212,000	207,000
Additional paid-in capital	71,570,000	66,507,000
Deferred stock compensation	(1,398,000)	(1,507,000)
Accumulated other comprehensive loss	(56,000)	(53,000)
Notes receivable from stockholders	(109,000)	(164,000)
Retained earnings	25,364,000	21,043,000
Treasury stock at cost, 69,000 shares at August 31, 2001 and 48,000 shares at May 31, 2001	(1,000)	(1,000)
Total stockholders' equity	95,582,000	86,032,000
Total liabilities and stockholders' equity	$110,837,000	$105,345,000

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	August 31, 2001	August 31, 2000
	(unaudited)	(unaudited)
Revenue	$48,872,000	$39,155,000
Direct cost of services, primarily payroll and related taxes for professional services employees	28,789,000	22,749,000
Gross profit	20,083,000	16,406,000
Selling, general and administrative expenses	12,875,000	10,720,000
Amortization of intangible assets	31,000	578,000
Depreciation expense	257,000	192,000
Income from operations	6,920,000	4,916,000
Interest expense		1,209,000
Interest income	(282,000)	
Income before provision for income taxes	7,202,000	3,707,000
Provision for income taxes	2,881,000	1,483,000
Net income	$ 4,321,000	$ 2,224,000
Net income per common share:		
Basic	$ 0.21	$ 0.14
Diluted	$ 0.19	$ 0.13
Weighted average common shares outstanding:		
Basic	20,856,000	15,630,000
Diluted	22,749,000	16,819,000

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Three Months Ended August 31, 2001 (unaudited)	Three Months Ended August 31, 2000 (unaudited)
COMMON STOCK--SHARES:		
Balance at beginning of period	20,735,000	15,630,000
Public offering of common stock	200,000	
Exercise of stock options	236,000	
Issuance of common stock under Employee Stock Purchase Plan	43,000	
Balance at end of period	21,214,000	15,630,000
COMMON STOCK--PAR VALUE:		
Balance at beginning of period	$ 207,000	$ 156,000
Public offering of common stock	2,000	
Exercise of stock options	2,000	
Issuance of common stock under Employee Stock Purchase Plan	1,000	
Balance at end of period	$ 212,000	$ 156,000
ADDITIONAL PAID-IN CAPITAL:		
Balance at beginning of period	$66,507,000	$10,222,000
Public offering of common stock	3,930,000	
Cost of stock offering	(758,000)	
Exercise of stock options	1,158,000	
Issuance of common stock under Employee Stock Purchase Plan	733,000	
Deferred stock compensation		938,000
Balance at end of period	$71,570,000	$11,160,000
DEFERRED STOCK COMPENSATION:		
Balance at beginning of period	$(1,507,000)	$ (499,000)
Issuance of restricted stock and grant of stock options		(938,000)
Amortization of deferred stock compensation	109,000	62,000
Balance at end of period	$(1,398,000)	$(1,375,000)
ACCUMULATED OTHER COMPREHENSIVE LOSS:		
Balance at beginning of period	$ (53,000)	$ (32,000)
Translation adjustments	(3,000)	
Balance at end of period	$ (56,000)	$ (32,000)
NOTES RECEIVABLE FROM STOCKHOLDERS:		
Balance at beginning of period	$ (164,000)	$ --
Repayment of notes receivable	55,000	
Balance at end of period	$ (109,000)	$ --
RETAINED EARNINGS:		
Balance at beginning of period	$21,043,000	$ 7,338,000
Net income	4,321,000	2,224,000
Balance at end of period	$25,364,000	$ 9,562,000
TREASURY STOCK--SHARES:		
Balance at beginning of period	(48,000)	--
Repurchase of shares	(21,000)	
Balance at end of period	(69,000)	--
TREASURY STOCK--COST:		
Balance at beginning of period	$ (1,000)	$ --
Repurchase of shares		
Balance at end of period	$ (1,000)	$ --
COMPREHENSIVE INCOME:		
Net income	$ 4,321,000	$ 2,224,000

Translation adjustments	(3,000)	
Total comprehensive income	$ 4,318,000	$ 2,224,000

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	August 31, 2001	August 31, 2000
	(unaudited)	(unaudited)
Cash flows from operating activities		
Net income	$ 4,321,000	$ 2,224,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	288,000	770,000
Amortization of debt issuance costs		66,000
Amortization of deferred stock compensation	109,000	63,000
Bad debt expense	257,000	468,000
Deferred income taxes	286,000	
Changes in operating assets and liabilities:		
Trade accounts receivable	(267,000)	(1,244,000)
Prepaid expenses and other current assets	(2,079,000)	351,000
Other assets	(81,000)	(116,000)
Accounts payable and accrued expenses	39,000	(651,000)
Accrued salaries and related obligations	(3,922,000)	649,000
Other liabilities	(133,000)	(370,000)
Accrued interest payable portion of notes payable		748,000
Net cash (used in) provided by operating activities	(1,182,000)	2,958,000
Cash flows from investing activities		
Purchases of property and equipment	(1,114,000)	(724,000)
Net cash used in investing activities	(1,114,000)	(724,000)
Cash flows from financing activities		
Proceeds from issuance of common stock	3,932,000	
Stock offering costs	(758,000)	
Proceeds from exercise of stock options	873,000	
Proceeds from issuance of common stock under Employee Stock Purchase Plan	734,000	
Repayment of notes receivable from stockholders	55,000	
Payments on term loan		(1,000,000)
Net cash provided by (used in) financing activities	4,836,000	(1,000,000)
Net increase in cash	2,540,000	1,234,000
Cash and cash equivalents at beginning of period	34,503,000	4,490,000
Cash and cash equivalents at end of period	$37,043,000	$ 5,724,000

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

RESOURCES CONNECTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Three months ended August 31, 2001 and 2000

1. Description of the Company and its Business

Resources Connection, Inc., formerly RC Transaction Corp., was incorporated on November 16, 1998. The Company provides professional services to a variety of industries and enterprises through its subsidiary, Resources Connection LLC ("LLC"), 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, provides clients with experienced professionals who specialize in accounting, finance, tax, information technology and human resources on a project-by-project basis. The Company operates in the United States, Canada, Hong Kong, Taiwan and the United Kingdom. The Company is a Delaware corporation. LLC is a Delaware limited liability company.

The Company's fiscal year consists of 52 or 53 weeks, ending on the Saturday in May nearest the last day of May in each year. For convenience, all references herein to years or periods are to years or periods ended May 31 or August 31, respectively. The three- month periods ended August 31, 2001 and 2000 each consist of 13 weeks, respectively.

On August 13, 2001, the Securities and Exchange Commission, or "SEC", declared the Company's registration statement effective for a secondary offering of the Company's common stock. Selling stockholders sold 3,332,591 shares of the Company's common stock in the offering, but the Company did not receive any of the proceeds from the sale of those shares. The Company sold 200,000 shares in the offering for approximately $3.2 million (after underwriting discounts, commissions and other transaction related expenses). The Company intends to use the net proceeds from this offering for working capital and general corporate purposes. After completion of the offering and including shares held in treasury, the Company has 21,214,000 shares of common stock outstanding. On September 5, 2001, the underwriters exercised their over-allotment option for an additional 499,889 shares from the selling stockholders and 30,000 shares from the Company.

On December 14, 2000, the SEC declared effective the Company's registration statement pertaining to its initial public offering of common stock. On December 20, 2000, the Company received the proceeds from this offering of 5,000,000 shares of the Company's common stock at $12 per share. The net proceeds of the offering (after underwriting discounts, commissions and other transaction related expenses) were $54.1 million. Net proceeds of approximately $38.8 million were used to retire the Company's term loan and subordinated debt balances and accrued interest. Selling stockholders sold 2,475,000 shares of the Company's common stock (including the exercise of the underwriters' over-allotment of 975,000 shares) in the offering, but the Company did not receive any of the proceeds from the sale of those shares.

2. Summary of Significant Accounting Policies

Interim Financial Information

The financial information for the three-month periods ended August 31, 2001 and 2000 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, 2001, which are included in the Company's Report on Form 10-K (File No. 0-32113) and the Company's Registration Statement on Form S-1 (File No. 333-65272) which was declared effective by the SEC on August 13, 2001.

Intangible Assets

Effective as of June 1, 2001, the Company has elected to adopt Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," which establishes new standards for goodwill acquired in a business combination and other intangible assets, eliminates amortization of existing goodwill balances, 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 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. SFAS No. 142 requires the Company to complete an initial evaluation of goodwill impairment within the first six months of adoption. While the Company has not completed such an analysis, 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.

If the Company had adopted SFAS No. 142 effective June 1, 2000, net income, basic earnings per share and diluted earnings per share would have been as follows:

	Three Months Ended August 31, 2001	Three Months Ended August 31, 2000
Reported net income	$4,321,000	$2,224,000
Add back: goodwill amortization, net of tax effect		328,000
Adjusted net income	$4,321,000	$2,552,000
Basic earnings per share:		
Reported net income	$ 0.21	$ 0.14
Goodwill amortization		0.02
Adjusted net income	$ 0.21	$ 0.16
Diluted earnings per share:		
Reported net income	$ 0.19	$ 0.13
Goodwill amortization		0.02
Adjusted net income	$ 0.19	$ 0.15

The Company has classified the noncompete agreement of $500,000 related to the purchase of LLC on April 1, 1999, as an intangible asset subject to amortization. The noncompete agreement has an unamortized balance of $200,000 and $231,000 as of August 31, 2001 and May 31, 2001, respectively, and is included as a component of other assets in the Company's consolidated balance sheets. The noncompete agreement was for a period of four years. The aggregate amortization expense related to this intangible was $31,000 for each of the quarters ended August 31, 2001 and 2000. The estimated amortization expense for the remaining unamortized portion will reduce income from operations by another $94,000 for the remainder of fiscal 2002 and $106,000 for fiscal 2003.

Per Share Information

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 is 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 10,000 were not included in the diluted earnings per share amounts for the three months ended August 31, 2000 as their effect would have been anti-dilutive. For the three months ended August 31, 2001 and 2000, potentially dilutive securities consisted solely of stock options and resulted in potential common shares of 1,892,000 and 1,183,000, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes these estimates and assumptions are adequate, actual results could differ from the estimates and assumptions used.

3. Supplemental Disclosure Of Cash Flow Information

For the three months ended August 31, 2001 and 2000:

	2001	2000
Interest paid.............................	$ --	$ 279,000
Income taxes paid.........................	$4,372,000	$1,969,000
Noncash investing and financing activities:		
Deferred stock compensation.............	$ --	$ 938,000

4. Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" which supersedes Accounting Principles Board Opinion No. 16 ("APB 16"), "Business Combinations" and SFAS No. 38 "Accounting for Preacquisition Contingencies of Purchased Enterprises". SFAS No. 141 establishes new standards for accounting and reporting requirements for business combinations and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. The Company has adopted this statement effective June 1, 2001 and management does not believe that it will have a material impact on the Company's consolidated financial statements.

As disclosed in Note 2, the Company has adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which supersedes APB Opinion No. 17, "Intangible Assets", effective June 1, 2001.

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 and Section 21E of the

Securities Exchange Act of 1934. 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 Form S-1, as amended (File No. 333-65272), and our report on Form 10-K (File No. 0-32113) for the year ended May 31, 2001. 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 a professional services firm that provides experienced accounting and finance, human resources management and information technology professionals to clients on a project-by-project basis. We assist our clients with discrete projects requiring specialized professional expertise in accounting and finance, such as mergers and acquisitions due diligence, financial analyses (e.g., product costing and margin analyses), corporate reorganization and tax-related projects. In addition, we provide human resources management services, such as compensation program design and implementation, and information technology services, such as transitions of management information systems. We also assist our clients with periodic needs such as budgeting and forecasting, audit preparation and public reporting.

We began operations in June 1996 as a division of Deloitte & Touche LLP, or 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 a management-led buyout in partnership with our investor Evercore Partners, Inc., four of its affiliates and six other investors.

Growth in revenue, to date, has generally been the result of establishing offices in major markets throughout the United States. 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 a limited number of offices. In fiscal 2000, we established four more domestic offices, established a new service line in human resources management in a limited number of offices and also began operations in Toronto, Canada; Taipei, Taiwan; and Hong Kong, People's Republic of China. During fiscal 2001, we established nine additional domestic offices. In the first quarter of fiscal 2002, we commenced operations in London, England. As a result, as of August 31, 2001, we served our clients through 41 offices in the United States and four international offices.

Three Months Ended August 31, 2001 Compared to Three Months Ended August 31, 2000

Revenue. Revenue increased $9.7 million, or 24.8%, to $48.9 million for the three months ended August 31, 2001 from $39.2 million for the three months ended August 31, 2000. The increase in total revenue was primarily due to the growth in total billable hours resulting from an increase in the number of associates on assignment from 1,065 at the end of the first quarter of fiscal 2001 to 1,134 at the end of the first quarter of fiscal 2002 and a 10% increase in the average billing rate per hour. We operated 45 offices during the first quarter of fiscal 2002 and 38 offices during the first quarter of the previous fiscal year. We opened one new office during the three months ended August 31, 2001 compared to three in the previous fiscal year's first quarter.

Direct Cost of Services. Direct cost of services increased $6.0 million, or 26.6%, to $28.8 million for the three months ended August 31, 2001 from $22.7 million for the three months ended August 31, 2000. This increase was primarily the result of the growth in the number of associates on assignment from 1,065 at the end of the first quarter of fiscal 2001 to 1,134 at the end of the first quarter of fiscal 2002. The average pay rate per hour was consistent between the two periods. The direct cost of services as a percentage of revenue increased from 58.1% for the three months ended August 31, 2000 to 58.9% for the three months ended August 31, 2001. The net increase reflects the incremental increase in billing rate per hour compared to pay rate per hour, offset by the impact of our enriched benefit programs for associates and the decrease in conversion fees in the first quarter of fiscal 2002 compared to the first quarter of fiscal 2001.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $2.2 million, or 20.1%, to $12.9 million for the three months ended August 31, 2001 from $10.7 million for the three months ended August 31, 2000. This increase was attributable to the increase in the cost of operating and staffing the new office opened in the first quarter of fiscal 2002 and the growth in operations at offices opened prior to the first quarter of fiscal 2002. Management and administrative headcount increased from 237 at the end of the first quarter of fiscal 2001 to 304 at the end of the first quarter of fiscal 2002. Selling, general and administrative expenses decreased as a percentage of revenue from 27.4% for the three months ended August 31, 2000 to 26.3% for the three months ended August 31, 2001. This percentage decrease resulted primarily from improved operating leverage experienced in offices opened more than one year and reduced spending levels in offices during the current quarter which includes summer vacations.

Amortization and Depreciation Expense. Amortization of intangible assets decreased from $578,000 for the three months ended August 31, 2000 to $31,000 for the three months ended August 31, 2001. Effective as of June 1, 2001, the Company has elected to adopt SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes new standards for goodwill acquired in a business combination and other intangible assets, eliminates amortization of existing goodwill balances, 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 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. SFAS No. 142 requires the Company to complete an initial evaluation of goodwill impairment within the first six months of adoption. While the Company has not completed such an analysis, the Company does not believe that an impairment of goodwill has occurred.

The amortization in the current quarter is related to the amortization of the remaining outstanding balance of $200,000 pertaining to a noncompete agreement entered into when the Company acquired LLC.

Depreciation expense increased from $192,000 for the three months ended August 31, 2000 to $257,000 for the three months ended August 31, 2001. This increase reflects the continued growth in our number of offices and our investment in information technology.

Interest Expense. The repayment of the term loan and subordinated notes on December 20, 2000, effectively ended the Company's interest expense obligations. The Company has invested available cash in money market and commercial paper investments which have been classified as cash equivalents due to the short maturities of these investments. Consequently, the Company generated interest income of $282,000 in the quarter ended August 31, 2001 compared to interest expense of $1.2 million in the quarter ended August 31, 2000. The Company earned approximately 3.5%, annualized, on its money market and commercial paper investments during the quarter.

Income Taxes. The provision for income taxes increased from $1.5 million for the three months ended August 31, 2000 to $2.9 million for the three months ended August 31, 2001. The effective tax rate was approximately 40.0% for both quarters, 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. 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;
- change in the demand for our services by our clients;
- the entry of new competitors into any of our markets;
- 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.

Liquidity and Capital Resources

Our primary source of liquidity is our existing cash and cash equivalents, cash provided by our operations and, to the extent necessary, available commitments under our revolving line of credit. During the current quarter, we completed a secondary public offering of stock which generated $3.2 million of cash (after underwriting discounts, commissions and other transaction related expenses). The Company has invested the net proceeds in money market and commercial paper investments.

In April 1999, in connection with the acquisition of Resources Connection LLC, we entered into a $28.0 million credit agreement (the "credit agreement") with Bankers Trust Company, now Deutsche Bank Securities Inc., U.S. Bank National Association and BankBoston, N.A., which provided for an $18.0 million term loan facility and a $10.0 million revolving credit facility. The remaining balance on the term loan facility was repaid in December 2000 using the proceeds from our initial public offering of common stock. As of August 31, 2001, we had no outstanding borrowings under the revolving credit facility.

On September 27, 2001, we replaced the credit agreement with a $10.0 million unsecured revolving credit facility with Bank of America (the "new credit agreement"). Our interest rate options under our new credit agreement 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 new credit agreement at various intervals no less frequent than quarterly. The new credit agreement expires September 1, 2003.

Net cash used in operating activities totaled $1.2 million for the three months ended August 31, 2001 compared to net cash provided by operating activities of $3.0 million for the three months ended August 31, 2000. The net decrease in cash provided by operations was caused by increased payments under the company's incentive bonus plan for management triggered by obtaining certain increases in revenue and net income, payments under the Company's new incentive plan for associates and prepayments of federal and state income taxes during the quarter as the Company changed its tax year end from December 31 to May 31, coinciding with its financial statement year-end. The Company's working capital includes $37.0 million in cash and cash equivalents at August 31, 2001.

Net cash used in investing activities totaled $1.1 million for the first three months of fiscal 2002 compared to $724,000 for the first three months of fiscal 2001. Cash used in investing activities was a result of purchases of property and equipment for existing offices and newly opened offices.

Net cash provided by financing activities totaled $4.8 million for the three months ended August 31, 2001 and net cash used in financing activities was $1.0 million for the three months ended August 31, 2000. The net cash provided by financing activities reflects the net proceeds received upon the completion of our secondary offering of common stock in addition to stock option exercises and purchases by employees through the company's Employee Stock Purchase Plan.

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 certain 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. Our longer-term plans for expanding our business anticipate that these sources of liquidity will be sufficient for the foreseeable future. If we require additional capital resources to grow our business in addition to the proceeds received in the offerings completed in December 2000 and August 2001, either internally or through acquisition, we may seek to sell additional equity securities or to 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 debt or equity 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 2002 is $5.0 million.

Recent Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" which supersedes APB No. 16, "Business Combinations" and SFAS No. 38 "Accounting for Preacquisition Contingencies of Purchased Enterprises". SFAS No. 141 establishes new standards for accounting and reporting requirements for business combinations and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. The Company has adopted this statement effective June 1, 2001 and management does not believe that it will have a material impact on the Company's consolidated financial statements.

As disclosed in Note 2, the Company has adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which supersedes APB Opinion No. 17, "Intangible Assets", effective June 1, 2001.

Factors Affecting Future Operating Results

Important factors that could cause actual results to differ materially from the forward-looking statements include the following:

RISKS RELATED TO OUR BUSINESS

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 Five 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.

We have not previously experienced an economic downturn, and our business may be significantly affected by such an economic downturn. As the general level of economic activity slows, our clients may delay or cancel plans that involve professional services, particularly outsourced professional services. Consequently, the demand for our associates could decline, resulting in a loss of revenues. 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 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 filed an application for a United States trademark registration for "Resources Connection" and an application for service mark registration of our name and logo. On August 29, 2001, we received notification from the United States Department of Commerce Patent and Trademark Office that our service mark application has been examined and passed for publication. If no opposition is filed, the Commissioner may issue a certification of registration. We are aware of other companies using the name "Resources Connection" or some variation thereof. There could be potential trade name or trademark infringement claims brought against us by the users of these similar names or trademarks, and those users may have trademark rights that are senior to ours. If an infringement suit were to be brought against us, the cost of defending such a suit could be substantial. If the suit 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 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 which have names similar to our name.

We are aware of other companies using the name "Resources Connection" or some variation thereof. Some of these companies provide outsourced services, or are otherwise engaged in businesses that could be similar to ours. One company has a web address which is nearly identical to ours, "www.resourceconnection.com". The existence of these companies may confuse our clients, thereby impeding our ability to build our brand identity.

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. 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 have grown rapidly since our inception in 1996 by opening new offices and by increasing the volume of services we provide through existing offices. 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 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. These new responsibilities and demands may adversely affect our business, financial condition and results of operation.

An 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;
- 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 may acquire companies in the future, and these acquisitions could disrupt our business.

Although we are not currently evaluating any potential acquisition candidates, 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 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.

We have a limited operating history as an independent company.

We commenced operations in June 1996 as a division of Deloitte & Touche. From January 1997 through April 1999, we operated as a wholly owned subsidiary of Deloitte & Touche. In April 1999, we were sold by Deloitte & Touche. Therefore, our business as an independent company has a limited operating history. Consequently, the financial information contained herein may not be indicative of our future financial condition and performance.

The terms of our transition services agreement between Resources Connection and Deloitte & Touche may not have been on terms indicative of those available from an independent party.

As part of the management-led buyout in April 1999, we entered into a transition services agreement with Deloitte & Touche under which Deloitte & Touche agreed to provide certain services to us at negotiated rates until none of our offices remained in Deloitte & Touche office space which occurred on August 31, 2000. The negotiated rates we agreed to pay to Deloitte & Touche under the transition services agreement may not be indicative of the rates that an independent third party would have charged us for providing the same services. Specifically, an independent third party may have charged us rates more or less favorable than those charged by Deloitte & Touche. If the terms of the transition services agreement, particularly the rates charged by Deloitte & Touche, were more favorable to us than those available from a third party, our general and administrative expenses will likely increase.

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 and Brent M. Longnecker, both of whom are executive vice presidents, 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.

Deloitte & Touche has agreed not to compete with us and we may be adversely affected when the noncompete expires.

In connection with the management buy-out, Deloitte & Touche agreed not to compete with us in a manner which replicates our business model for a period ending on the earlier of April 1, 2003 or the date that Deloitte & Touche enters into a significant business combination. The noncompete does not prohibit Deloitte & Touche from using their personnel in a loaned staff capacity or from allowing their personnel to work on a less than full time basis in accordance with the human resources policies of Deloitte & Touche. When the noncompete expires, we may be adversely affected if Deloitte & Touche chooses to compete in a manner previously prohibited by the noncompete.

Our quarterly financial results may be subject to significant fluctuations.

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;
- the entry of new competitors into any of our markets;
- changes in demand for our services by our clients;
- 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.

Our stock price has been volatile, and you may lose all or substantially all of your investment.

The market price of our common stock has fluctuated widely in the past and is likely to continue to fluctuate in the future. Fluctuations in the market price of our common stock could occur in response to factors such as:

- loss of a significant client or group of clients;
- changes in market valuations of professional services companies;
- improvements in the outsourcing of professionals by our competitors; and
- the introduction of new competitors in the market for outsourced professionals.

In addition to these specific factors, companies listed on The Nasdaq Stock Market's National Market have recently experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies listed on these markets. Our common stock is listed on The Nasdaq Stock Market's National Market and therefore has and will be subject to this volatility. The volatility of the market may materially adversely affect the market price of our common stock, regardless of our actual operating performance.

Substantial sales of our common stock by our investors could cause our stock price to decline.

If our stockholders sell substantial amounts of our common stock, including shares issued upon the exercise of outstanding options, in the public market, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate

Our existing stockholders have significant influence over us and they may make decisions with which you disagree.

Under a stockholders agreement entered into prior to our initial public offering, certain entities affiliated with Evercore Partners L.L.C., or the Evercore Partners, have agreed to vote their shares in favor of board nominees designated by some of our management stockholders--Donald B. Murray, Stephen J. Giusto, Karen M. Ferguson and Brent M. Longnecker--and these management stockholders have agreed to vote their shares in favor of board nominees designated by the Evercore Partners. Currently, five of our eight directors have been designated by the Evercore Partners and the management stockholders. In addition, our executive officers, directors and principal shareholders, including Evercore Partners Inc. and certain of its affiliates, own approximately 22.8% of the outstanding common shares of common stock. As a result, Evercore Partners Inc. and/or these other stockholders will be able to exercise signficiant influence over us and our affairs, including the election of directors and approval of significant corporate transactions. This influence of our board of directors also may delay, defer or even prevent a change in control of our company, and may make some transactions more difficult or impossible without the support of these stockholders. These transactions might include proxy contests, tender offers, mergers or other purchases of common stock that could give you the opportunity to realize a premium over the then-prevailing market price for shares of our common stock.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. At the end of the first quarter of fiscal 2002, we had approximately $37.0 million of cash and highly liquid short-term investments. 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.

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

There were no issuance or sales of unregistered securities during the three months ended August 31, 2001.

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 2002 is $5.0 million.

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

None.

b) Reports on Form 8-K

None.

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 8, 2001 /s/ DONALD B. MURRAY*

Donald B. Murray
President and Chief
Executive Officer

Date: October 8, 2001 /s/ STEPHEN J. GIUSTO

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

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* Signing on behalf of the registrant and as a duly authorized officer.