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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended November 30, 2006

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

As of December 28, 2006, 48,469,919 shares of the registrant's common stock, $0.01 par value per share, were outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RESOURCES CONNECTION, INC.

CONSOLIDATED BALANCE SHEETS
(Unaudited)
(amounts in thousands, except par value per share)

	November 30, 2006	May 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 100,213	$ 88,439
Short-term investments	49,000	37,000
Trade accounts receivable, net of allowance for doubtful accounts of $5,061 and $5,166 as of November 30, 2006 and May 31, 2006, respectively	105,391	90,720
Prepaid expenses and other current assets	4,721	4,921
Deferred income taxes	6,648	6,648
Total current assets	265,973	227,728
U.S. Government agency securities	50,000	60,000
Goodwill	83,323	80,287
Intangible assets, net	1,119	1,881
Property and equipment, net	28,529	26,725
Deferred income taxes	2,761	1,257
Other assets	845	733
Total assets	$ 432,550	$ 398,611
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 13,346	$ 14,472
Accrued salaries and related obligations	47,187	49,383
Income taxes payable and other liabilities	7,254	2,759
Total current liabilities	67,787	66,614
Other long-term liabilities	4,156	5,130
Deferred income taxes	9,400	9,431
Total liabilities	81,343	81,175
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 5,000 shares authorized; zero shares issued and outstanding		
Common stock, $0.01 par value, 140,000 shares authorized; 49,865 and 49,527 shares issued; and 48,371 and 48,278 outstanding as of November 30, 2006 and May 31, 2006, respectively	499	495
Additional paid-in capital	172,146	152,066
Deferred stock compensation	—	(479)
Accumulated other comprehensive gain	1,362	884
Retained earnings	213,471	187,863
Treasury stock at cost, 1,494 and 1,249 shares at November 30, 2006 and May 31, 2006, respectively	(36,271)	(23,393)
Total stockholders' equity	351,207	317,436
Total liabilities and stockholders' equity	$ 432,550	$ 398,611

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2006	2005	2006	2005
Revenue	$ 182,804	$ 158,138	$ 347,911	$ 307,726
Direct cost of services, primarily payroll and related taxes for professional services employees	110,152	95,171	210,071	185,821
Gross profit	72,652	62,967	137,840	121,905
Selling, general and administrative expenses	46,658	36,826	91,456	70,918
Amortization of intangible assets	344	435	762	870
Depreciation expense	1,444	545	2,800	1,037
Income from operations	24,206	25,161	42,822	49,080
Interest income	2,013	1,114	3,922	2,086
Income before provision for income taxes	26,219	26,275	46,744	51,166
Provision for income taxes	11,562	10,250	21,136	20,082
Net income	$ 14,657	$ 16,025	$ 25,608	$ 31,084
Net income per common share:				
Basic	$ 0.30	$ 0.33	$ 0.53	$ 0.65
Diluted	$ 0.29	$ 0.31	$ 0.51	$ 0.60
Weighted average common shares outstanding:				
Basic	48,123	48,084	48,133	47,892
Diluted	50,470	52,034	50,123	51,722

The Consolidated Statements of Income for the three and six months ended November 30, 2006 reflect the adoption of Statement of Financial Accounting Standards No. 123 (revised), “Share-Based Payment” effective with the Company’s first quarter of fiscal 2007. The adoption of this standard resulted in an increase in selling, general and administrative expenses of $4.7 million and $9.4 million and a decrease in the provision for income taxes of $790,000 and $1.3 million for the three and six months ended November 30, 2006, respectively. There were no corresponding amounts recognized in the Consolidated Statements of Income for the three and six months ended November 30, 2005 (see notes 1 and 9 to the financial statements).

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(amounts in thousands)

	Six Months Ended November 30, 2006
COMMON STOCK—SHARES:	
Balance at beginning of period	49,527
Exercise of stock options	509
Issuance of common stock under Employee Stock Purchase Plan	119
Cancellation of treasury stock	(290)
Balance at end of period	49,865
COMMON STOCK—PAR VALUE:	
Balance at beginning of period	$ 495
Exercise of stock options	5
Issuance of common stock under Employee Stock Purchase Plan	1
Cancellation of treasury stock	(2)
Balance at end of period	$ 499
ADDITIONAL PAID-IN CAPITAL:	
Balance at beginning of period	$ 152,066
Exercise of stock options	5,952
Stock-based compensation expense related to employee stock options and employee stock purchases	9,363
Tax benefit from employee stock option plans	2,443
Reclassification of deferred stock compensation	(479)
Issuance of common stock under Employee Stock Purchase Plan	2,531
Issuance of treasury stock for Nordic Spring transaction	572
Cancellation of treasury stock	(302)
Balance at end of period	$ 172,146
DEFERRED STOCK COMPENSATION:	
Balance at beginning of period	$ (479)
Reclassification of deferred stock compensation	479
Balance at end of period	$ —
ACCUMULATED OTHER COMPREHENSIVE GAIN:	
Balance at beginning of period	$ 884
Translation adjustments	478
Balance at end of period	$ 1,362
RETAINED EARNINGS:	
Balance at beginning of period	$ 187,863
Net income	25,608
Balance at end of period	$ 213,471
TREASURY STOCK—SHARES:	
Balance at beginning of period	(1,249)
Repurchase of shares	(600)
Issuance of treasury stock for Nordic Spring transaction	65
Cancellation of treasury stock	290
Balance at end of period	(1,494)
TREASURY STOCK—COST:	
Balance at beginning of period	$ (23,393)
Repurchase of shares	(14,130)
Issuance of treasury stock for Nordic Spring transaction	948
Cancellation of treasury stock	304
Balance at end of period	$ (36,271)
COMPREHENSIVE INCOME:	
Net income	$ 25,608
Translation adjustments	478
Total comprehensive income	$ 26,086

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(amounts in thousands)

	Six Months Ended November 30, 2006	Six Months Ended November 30, 2005
Cash flows from operating activities:		
Net income	$ 25,608	$ 31,084
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	3,562	1,907
Stock-based compensation expense related to employee stock options and employee stock purchases	9,363	—
Excess tax benefits from stock-based compensation	(1,209)	
Amortization of deferred stock compensation	—	60
Bad debt expense	184	684
Deferred income tax benefit	(1,535)	—
Changes in operating assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	(14,410)	(9,061)
Prepaid expenses and other current assets	120	(225)
Income taxes payable	6,130	782
Other assets	(132)	977
Accounts payable and accrued expenses	(1,234)	(2,661)
Accrued salaries and related obligations	(2,080)	195
Other liabilities	(210)	410
Net cash provided by operating activities	24,157	24,152
Cash flows from investing activities:		
Redemption of long-term investments	12,000	11,000
Purchase of long-term investments	(32,000)	(30,000)
Redemption of short-term investments	18,000	57,000
Purchase of short-term investments	—	(30,000)
Cash used to complete Nordic Spring transaction	(1,488)	—
Purchases of property and equipment	(4,599)	(12,598)
Net cash used in investing activities	(8,087)	(4,598)
Cash flows from financing activities:		
Proceeds from exercise of stock options	5,957	7,012
Proceeds from issuance of common stock under Employee Stock Purchase Plan	2,532	1,350
Repurchase of common stock	(14,130)	—
Excess tax benefits from stock-based compensation	1,209	—
Net cash (used in) provided by financing activities	(4,432)	8,362
Effect of exchange rate changes on cash	136	(1,596)
Net increase in cash and cash equivalents	11,774	26,320
Cash and cash equivalents at beginning of period	88,439	38,741
Cash and cash equivalents at end of period	$100,213	$ 65,061

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

ITEM 1. (CONTINUED)

RESOURCES CONNECTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Six months ended November 30, 2006 and 2005

1. Description of the Company and its Business

Resources Connection, Inc. (“Resources Connection”) was incorporated on November 16, 1998. Resources Connection is an international professional services firm; its operating entities provide services under the name Resources Global Professionals (“Resources Global” or “the Company”). Resources Global provides professional services to a variety of industries and enterprises through its subsidiaries. The Company provides clients with experienced professionals who specialize in accounting, finance, information technology, human resources, supply chain management, legal services and internal audit and risk assessment on a project basis. The Company has offices in the United States (“U.S.”), Asia, Australia, Canada, Mexico and Europe. Resources Connection is a Delaware corporation.

The Company’s fiscal year consists of 52 or 53 weeks, ending on the last Saturday in May. The actual quarter end dates for the second quarter of fiscal 2007 and 2006, each consisting of 13 weeks, were November 25, 2006 and November 26, 2005, respectively. For convenience, all references herein to years or periods are to years or periods ended May 31 or November 30, respectively.

2. Summary of Significant Accounting Policies

Interim Financial Information

The financial information as of and for the three and six months ended November 30, 2006 and 2005 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair statement of its financial position at such dates and the operating results and cash flows for those periods. The year-end balance sheet data was derived from audited financial statements and 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, 2006, which are included in the Company’s Annual Report on Form 10-K for the year then ended (File No. 0-32113).

Short and Long-Term Investments

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

All held-to-maturity securities have remaining maturity dates greater than one year. To secure a higher interest rate on the Company’s investment in government bonds, the $50.0 million in investments classified as long-term as of November 30, 2006 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

Effective June 1, 2006, the Company adopted SFAS No. 123 revised, “Share-Based Payment” (“SFAS 123 (R)”) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases made via the Company’s Employee Stock Purchase Plan, to be based on estimated fair values. Prior to that date, the Company accounted for its stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees”. Under APB No. 25, the intrinsic value of the options was used to record compensation expense and if the grant price of the options was equal to the fair market value of the option at the date of grant, no compensation expense related to the stock options was included in determining net income and net income per share. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) related to SFAS 123 (R). The Company has applied the provisions of SAB 107 in adopting SFAS 123 (R).

The Company adopted SFAS 123 (R) using the modified prospective method, which requires the application of the accounting standard as of June 1, 2006, the beginning of the Company's 2007 fiscal year. In accordance with the modified prospective method, the Company's previously issued financial statements have not been restated to reflect the impact of SFAS 123 (R). Stock-based compensation expense recognized under SFAS 123 (R) and included in selling, general and administrative expenses for the three and six months ended November 30, 2006 was $4.7 million and $9.4 million, respectively; this consisted of stock-based compensation expense related to employee stock options, employee stock purchases made via the Company's Employee Stock Purchase Plan and issuance of restricted stock. There was no stock-based compensation expense related to employee stock options and employee stock purchases recognized during the three and six months ended November 30, 2005.

SFAS 123 (R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods (four years under the Company's 2004 Performance Incentive Plan). Under both SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and SFAS 123 (R), the Company determines the estimated fair value of stock options using the Black-Scholes valuation model. Under the pro forma information required under SFAS 123 for periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred. SFAS 123 (R) requires the Company to recognize expense over the service period for options that are expected to vest and record adjustments to compensation expense at the end of the service period if actual forfeitures differ from original estimates. The Company recognizes stock-based compensation expense on a straight-line basis.

See Note 9 – *Stock Based Compensation Plans* for further information.

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.

Sales Taxes Withheld from Clients

Certain states in the United States and countries throughout the world impose sales tax or value-added taxes on our services. These taxes are treated on a "net basis": that is, they are excluded from our revenues and are included as a part of "Accounts Payable and Accrued Expenses" in our balance sheet until they are remitted to the applicable taxing authority.

3. Stockholders' Equity

In October 2002, the Board of Directors approved a stock repurchase program, authorizing the repurchase of up to 3.0 million shares of our common stock. During the first quarter of fiscal 2007, the Company purchased 600,000 shares of our common stock at an average price of $23.55 per share for a total of approximately $14.1 million. In August 2006, the Board of Directors added the condition that the total expenditure for the remaining 1,460,389 shares of common stock authorized for repurchase not exceed $60.0 million.

4. Net Income Per Share

The Company presents both basic and diluted earnings per share ("EPS") amounts in accordance with SFAS No. 128, "Earnings Per Share." This pronouncement establishes standards for the computation, presentation and disclosure requirements for EPS for entities with publicly held common shares and potential common shares. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the period, calculated using the treasury stock method for stock options. Under the treasury stock method, exercise proceeds include the amount the employee must pay for exercising stock options, the amount of compensation cost for future services that the Company has not yet recognized and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and are excluded from the calculation.

The following table summarizes the calculation of net income per share for the three and six months ended November 30, 2006 and 2005 (in thousands, except per share amounts):

	Three months ended November 30,		Six months ended November 30,	
	2006	2005	2006	2005
Net income	$ 14,657	$ 16,025	$ 25,608	$ 31,084
Basic:				
Weighted average shares	48,123	48,084	48,133	47,892
Diluted:				
Weighted average shares	48,123	48,084	48,133	47,892
Potentially dilutive shares	2,347	3,950	1,990	3,830
Total dilutive shares	50,470	52,034	50,123	51,722
Net income per share:				
Basic	$ 0.30	$ 0.33	$ 0.53	$ 0.65
Diluted	$ 0.29	$ 0.31	$ 0.51	$ 0.60

The potentially dilutive shares presented above do not include the anti-dilutive effect of approximately 3,388,000 and 136,000 potential common shares for the three months ended November 30, 2006 and 2005, respectively and 3,385,000 and 170,000 potential common shares for the six months ended November 30, 2006 and 2005, respectively.

5. Acquisition

On August 27, 2004, the Company acquired approximately 80% of the shares of Nordic Spring Management Consulting AB ("Nordic Spring") of Stockholm, Sweden for $4.6 million. The Company purchased the remaining 20% of the shares of Nordic Spring in the first quarter of fiscal 2007. The purchase price of $3.0 million was based on Nordic Spring's operating income (before interest and depreciation) during the Company's 2006 fiscal year, and was paid 50% in cash and 50% in the Company's common stock (65,170 shares).

In accordance with SFAS No. 141, "Business Combinations", the Company will allocate the purchase price of the remaining 20% of the shares of Nordic Spring based on the fair value of the assets acquired and liabilities assumed. As of November 30, 2006, the $3.0 million purchase price has been allocated entirely to goodwill, pending completion of the Company's valuation study. The Company will consider a number of factors in performing this valuation, including a valuation of the identifiable intangible assets.

6. Intangible Assets and Goodwill

The following table presents details of our intangible assets, estimated lives, related accumulated amortization and goodwill (amounts in thousands):

	As of November 30, 2006			As of May 31, 2006		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships (2 – 4 years)	$ 5,010	$ (4,368)	$ 642	$ 5,010	$ (3,771)	$ 1,239
Associate and customer database (1 – 5 years)	1,759	(1,407)	352	1,759	(1,301)	458
Non-compete agreements (1 – 4 years)	802	(759)	43	802	(730)	72
Developed technology (3 years)	520	(520)	—	520	(490)	30
Trade name and trademark (indefinite life)	82	—	82	82	—	82
Total	$ 8,173	$ (7,054)	$ 1,119	$ 8,173	$ (6,292)	$ 1,881
Goodwill (indefinite life)	$87,940	$ (4,617)	$83,323	$84,904	$ (4,617)	$80,287

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

The Company recorded amortization expense of $344,000 and $435,000 for the three months ended November 30, 2006 and 2005, respectively and $762,000 and $870,000 for the six months ended November 30, 2006 and 2005, respectively. Estimated intangible asset amortization expense (based on existing intangible assets) for the years ending May 31, 2007, 2008 and 2009 is $1,381,000, $382,000 and $36,000, respectively. The amount of future amortization will increase when the Company completes its review of the allocation of the purchase price for the remaining 20% of shares of Nordic Spring; however, the additional amortization expense will not be significant. Amortization of the Company's existing intangible assets with finite lives will be complete as of the end of fiscal 2009. The change in the balance of goodwill is the result of the purchase of the remaining 20% of the shares of Nordic Spring and the translation of goodwill balances of our non-U.S. based operations at the exchange rate effective at the end of the quarterly period.

7. Segment Reporting

In accordance with the requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", the Company discloses information regarding operations outside of the United States. The Company operates as one segment. The accounting policies for the domestic and international operations are the same as those described in Note 2-*Summary of Significant Accounting Policies* of the Company's 2006 Annual Report on Form 10-K. Summarized financial information regarding the Company's domestic and international operations is shown in the following table (amounts in thousands):

	Revenue for the three months ended November 30,		Revenue for the six months ended November 30,		Long-Lived Assets as of	
	2006	2005	2006	2005	November 30, 2006(1)	May 31, 2006(1)
United States	$ 138,965	$ 125,012	$ 267,163	$ 241,517	$ 25,618	$ 23,789
The Netherlands	18,365	15,169	34,054	30,286	275	865
Other	25,474	17,957	46,694	35,923	2,636	2,071
Total	$ 182,804	$ 158,138	$ 347,911	$ 307,726	$ 28,529	$ 26,725

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

8. Recent Accounting Pronouncements

In September 2006, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation". This EITF requires that Company's disclose how they report, within their financial statements, taxes assessed by a governmental authority that involve a specific revenue producing transaction between a seller and a customer. These types of taxes may include, but are not limited to, sales, use, value added and excise taxes. These taxes collected from customers may be presented either on a gross basis (that is, included in revenue and cost of services) or on a net basis (excluded from revenue and cost of services but included as a liability in the balance sheet until the tax has been remitted to the appropriate governmental authority). The Company has adopted EITF Issue No. 06-03 effective in this second quarter of fiscal 2007, disclosing that it accounts for such taxes on a net basis.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"), which provides guidance for recognition of a net liability or asset to report the funded status of company defined benefit pension and other postretirement benefit plans (collectively referred to herein as "benefit plans") on company balance sheets. The pronouncement clarifies (1) recognition of the funded status of a benefit plan in its statement of financial position; (2) recognition as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FASB Statement No. 87, "Employers' Accounting for Pensions", or No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"; (3) measurement of defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions); and (4) disclosure requirements in the notes to financial statements with additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. SFAS 158 is effective as of the beginning of our 2008 fiscal year. The Company does not expect the adoption of SFAS 158 to have a material impact on its consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”), which provides guidance for using fair value to measure assets and liabilities. The pronouncement clarifies (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS 157 is effective as of the beginning of our 2009 fiscal year. The Company does not expect the adoption of SFAS 157 to have a material impact on its consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes”, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Company recognize the impact of a tax position in its financial statements, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of our 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

9. Stock Based Compensation Plans

2004 Performance Incentive Plan

On October 15, 2004, the Company’s stockholders approved the Resources Connection, Inc. 2004 Performance Incentive Plan (the “Plan”). This Plan replaces the Company’s 1999 Long Term Incentive Plan (the “Prior Plan”). Under the terms of the Plan, the Company’s Board of Directors or one or more committees appointed by the Board of Directors will administer the Plan. The Board of Directors has delegated general administrative authority for the Plan to the Corporate Governance, Nominating and Compensation Committee of the Board of Directors.

The administrator of the Plan has broad authority under the Plan to, among other things, select participants and determine the type(s) of award(s) that they are to receive, and determine the number of shares that are to be subject to awards and the terms and conditions of awards, including the price (if any) to be paid for the shares or the award.

Persons eligible to receive awards under the Plan include officers or employees of the Company or any of its subsidiaries, directors of the Company, and certain consultants and advisors to the Company or any of its subsidiaries.

The maximum number of shares of the Company’s common stock that may be issued or transferred pursuant to awards under the Plan equals the sum of: (1) 4,000,000 shares (after giving effect to the Company’s two-for-one stock split in March 2005), plus (2) the number of shares available for award grant purposes under the Prior Plan as of October 15, 2004, plus (3) the number of any shares subject to stock options granted under the Prior Plan and outstanding as of October 15, 2004 which expire, or for any reason are cancelled or terminated, after that date without being exercised; plus (4) 1,500,000 shares that were approved as an amendment to the Plan on October 19, 2006. As of November 30, 2006, 3,053,000 shares were available for award grant purposes under the Plan, subject to future increases as described in (3) above.

The types of awards that may be granted under the Plan include stock options, restricted stock, stock bonuses, performance stock, stock units, phantom stock and other forms of awards granted or denominated in the Company’s common stock or units of the Company’s common stock, as well as certain cash bonus awards. Under the terms of the Plan, the option price for the incentive stock options (“ISO”) and nonqualified stock options (“NQSO”) shall not be less than the fair market value of the shares of the Company’s stock on the date of the grant. For ISO, the exercise price per share may not be less than 110% of the fair market value of a share of common stock on the grant date for any individual possessing more than 10% of the total outstanding stock of the Company. Stock options granted under the Plan and the Prior Plan become exercisable over periods of one to four years and expire not more than ten years from the date of grant. Beginning with grants in fiscal 2007, the Company intends to grant NQSO to employees in the United States.

A summary of the option activity under the Plan and the Prior Plan follows (amounts in thousands except weighted average exercise price):

	Options Available for Grant	Number of Shares Under Option	Weighted Average Exercise Price
Options outstanding at May 31, 2005	3,122	8,623	$ 14.37
Granted, at fair market value	(2,056)	2,056	$ 26.95
Exercised	—	(1,365)	$ 11.32
Forfeited	441	(441)	$ 18.91
Options outstanding at May 31, 2006	1,507	8,873	$ 17.52
Granted, at fair market value	(230)	230	$ 25.51
Additional options available for grant	1,500	—	—
Exercised	—	(509)	$ 11.71
Forfeited	276	(276)	$ 20.58
Options outstanding at November 30, 2006	3,053	8,318	$ 18.00

The following table summarizes significant option groups outstanding as of November 30, 2006 and related weighted average exercise price and life information (number of options and intrinsic value in thousands):

	Options Outstanding				Options Exercisable			
Range of Exercise Price Per Share	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value
$1.50 to $ 2.50	359	$ 1.93	3.26	$ 9,923	359	$ 1.93	3.26	$ 9,923
$6.00 to $ 9.24	853	$ 8.14	5.34	$18,302	705	$ 8.10	5.16	$15,155
$10.17 to $12.72	1,054	$ 12.01	6.20	$18,548	730	$ 12.06	6.02	$12,799
$13.78 to $14.33	1,106	$ 14.15	6.09	$17,088	678	$ 14.29	5.49	$10,381
$15.38 to $23.49	1,820	$ 17.46	7.57	$22,094	712	$ 17.13	7.47	$ 8,876
$24.46 to $29.27	3,126	$ 26.22	8.88	$10,560	326	$ 25.18	8.29	$ 1,441
	8,318	$ 18.00	7.26	$96,515	3,510	$ 12.91	5.96	$58,575

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price of $29.60 as of November 24, 2006 (the last actual trading day of our second quarter of fiscal 2007), which would have been received by the option holders had all option holders exercised their options as of that date.

The total pre-tax intrinsic value related to stock options exercised during the three months ended November 30, 2006 and 2005 was $6.3 million and $2.0 million, respectively. The total estimated fair value of shares vested during the three months ended November 30, 2006 and 2005 was $1.7 million and $1.5 million, respectively.

Employee Stock Purchase Plan

In October 2000, the Company's Board of Directors adopted the Resources Connection, Inc. Employee Stock Purchase Plan ("ESPP"), which was approved by the Company's stockholders in October 2000. Under the terms of the ESPP, a total of 2,400,000 shares of common stock may be issued. The ESPP allows for qualified employees (as defined) to participate in the purchase of designated shares of the Company's common stock at a price equal to 85% of the lesser of the fair market value of common stock at the beginning or end of each semi-annual stock purchase period. The Company issued 119,000 and 169,000 shares of common stock pursuant to this plan for the six months ended November 30, 2006 and the year ended May 31, 2006, respectively. There are 1,466,000 shares of common stock available for issuance under the ESPP as of November 30, 2006.

Valuation and Expense Information under SFAS 123 (R)

Effective June 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123 (R) using the modified prospective transition method; accordingly, prior periods have not been restated. Stock-based compensation expense recognized in the Company's Financial Statements for the three and six months ended November 30, 2006 included compensation expense for stock options granted, restricted stock issued and employee stock purchases related to the ESPP prior to, but not yet vested as of, May 31, 2006.

The following table summarizes the impact of the adoption of SFAS 123 (R) (in thousands, except per share amounts):

	Three months ended November 30, 2006	Six months ended November 30, 2006
Income before income taxes	$ (4,662)	$ (9,363)
Net income	(3,872)	(8,057)
Net income per share:		
Basic	$ (0.08)	$ (0.17)
Diluted	$ (0.08)	$ (0.16)

The weighted average estimated fair value per share of employee stock options granted during the three and six months ended November 30, 2006 was $14.46 and $13.72, respectively, using the Black-Scholes model with the following assumptions:

	Three months ended November 30, 2006	Six months ended November 30, 2006
Expected volatility	48.0%	48.0%-48.5%
Risk-free interest rate	4.57%	4.57%-5.11%
Expected dividends	0.0%	0.0%
Expected life	6.25 years	6.25 years

As of November 30, 2006, there was $34.2 million of total unrecognized compensation cost related to non-vested employee stock options granted. That cost is expected to be recognized over a weighted-average period of 31 months.

SFAS 123 (R) requires that excess tax benefits be recognized as an increase to additional paid-in capital and that unrealized tax benefits be recognized as income tax expense unless there are excess tax benefits from previous equity awards to which it can be offset. The Company calculated the amount of eligible excess tax benefits that are available on the adoption date to offset future tax shortfalls in accordance with the long-form method described in paragraph 81 of SFAS 123 (R).

SFAS 123 (R) requires that the Company recognize compensation expense for only the portion of restricted stock and restricted stock units that are expected to vest, rather than recording forfeitures when they occur, as previously permitted under SFAS 123. If the actual number of forfeitures differs from that estimated by management, additional adjustments to compensation expense may be required in future periods.

SFAS 123 (R) no longer requires the recognition of deferred compensation upon the grant of restricted stock. On June 1, 2006, deferred compensation related to awards issued prior to the adoption of SFAS 123 (R) was reduced to zero with a corresponding decrease to “Additional Paid-in Capital”. In addition, SFAS 123 (R) requires the Company to reflect, in its Statement of Cash Flows, the tax savings resulting from tax deductions in excess of expense recognized in its Statement of Income as a financing cash flow, which will impact the Company’s future reported cash flows from operating activities.

Provision for Income Taxes under SFAS 123 (R)

The provision for income taxes increased from $10.3 million for the three months ended November 30, 2005 to $11.6 million for the three months ended November 30, 2006. The effective tax rate was 44.1% for the second quarter of fiscal 2007 and 39.0% for the second quarter of fiscal 2006. As a result of the Company’s adoption of SFAS 123 (R), the Company’s projected effective tax rate increased by 4.1 percentage points in the second quarter of fiscal 2007. Under SFAS 123 (R), the Company cannot recognize a potential tax benefit for certain ISO grants until and unless the holder exercises his or her option and then sells the shares within a certain period of time. In addition, the Company can only recognize a potential tax benefit for employees’ acquisition and subsequent sale of shares purchased through the Company’s ESPP if the sale occurs within a certain defined period. As a result, the Company’s provision for income taxes is likely to be volatile for the foreseeable future. Further, under SFAS 123 (R), these potential tax benefits associated with ISO grants fully vested at the date of adoption of SFAS 123 (R) will be recognized as additions to paid-in capital when and if those options are exercised and not as a reduction to the Company’s tax provision. The Company recognized a benefit of approximately $790,000 related to stock-based compensation for nonqualified stock options expensed and for eligible disqualifying ISO exercises during the second quarter of fiscal 2007.

Pro Forma Information under SFAS 123 for Periods Prior to Fiscal 2007

The table below reflects pro forma net income and pro forma net income per share for the three and six months ended November 30, 2005 as if the Company had recognized compensation cost at the date of grant using the fair value method (in thousands, except per share amounts):

	Three months ended November 30, 2005	Six months ended November 30, 2005
Net income, as reported	$ 16,025	$ 31,084
Stock-based employee compensation expense, net of related tax effects	18	36
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(4,624)	(5,053)
Pro forma net income	$ 11,419	$ 26,067
Net income per share:		
Basic-as reported	$ 0.33	$ 0.65
Basic-pro forma	$ 0.24	$ 0.54
Diluted-as reported	$ 0.31	$ 0.60
Diluted-pro forma	$ 0.22	$ 0.52

The fair value of each option is estimated, as of the grant date, using the Black-Scholes option pricing model with the following weighted average assumptions for grants in fiscal 2006: expected volatility of 50.0%; risk-free interest rate of 3.8% to 4.3%; no expected dividends; and expected lives of 6.25 years.

10. Supplemental cash flow information

The Statement of Cash Flows for the six months ended November 30, 2006 does not include under the caption “cash flows from investing activities” the non-cash issuance of 65,170 shares of the Company’s common stock, representing 50% of the $3.0 million purchase price for the remaining 20% of the outstanding shares of Nordic Spring.

The Statement of Cash Flows for the six months ended November 30, 2006 does not include under the caption “cash flows from financing activities” the non-cash cancellation of 289,538 shares of the Company’s common stock that had been classified as treasury stock. In accordance with the amendment to the Company’s 2004 Performance Incentive Plan that was approved by shareholders during the second quarter of fiscal 2007, the Company was no longer able to reissue these shares at a future date.

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, 2006 (File No. 0-32113). Readers are cautioned not to place undue reliance on these forward-looking statements. Our actual results, levels of activity, performance or achievements and those of our industry may be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. We undertake no obligation to update the forward-looking statements in this filing. References in this filing to “Resources Connection,” “Resources Global Professionals,” “Resources Global,” the “Company,” “we,” “us,” and “our” refer to Resources Connection, Inc. and its subsidiaries.

Overview

Resources Global is an international professional services firm that provides experienced finance and accounting, risk management and internal audit, information technology, human resources, supply chain management and legal professionals to clients on a project basis. We assist our clients with discrete projects requiring specialized expertise in 1) finance and accounting, 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 change management and compensation program design and implementation; 4) internal audit services (provided via our subsidiary Resources Audit Solutions or "RAS"), including compliance reviews, internal audit co-sourcing and assisting clients with their compliance efforts under the Sarbanes-Oxley Act of 2002 ("Sarbanes"); 5) supply chain management ("SCM") services, such as leading strategic sourcing efforts, negotiating contracts and performing tactical purchasing; and 6) legal services providing attorneys, paralegals and contract managers to assist clients (including law firms) with project-based or peak period needs.

We began operations in June 1996 as a division of Deloitte & Touche and operated as Resources Connection, LLC, 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 Global Market. In January 2005, we announced the change of our operating entity name to Resources Global Professionals to better reflect the Company's global capabilities.

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

Fiscal Year	Number of United States Offices Opened	Number of International Operations Opened	Service Line Established
1997	Nine		Finance and accounting
1998	Nine		
1999	Ten		Information management
2000	Four	Three	Human resources management
2001	Nine	One	
2002	Two		
2003	Six	One	Resources Audit Solutions; Supply chain management (via acquisition)
2004	Two opened; two consolidation closures	Seven opened via acquisition; one organic	
2005	Two opened; two consolidation closures	One opened via acquisition; two organic	Legal
2006	Three	Two opened via acquisition; eight organic	
2007	One	Four opened and one consolidation closure	

During the second quarter of fiscal 2007, we continued to expand our international presence, opening a practice in Edinburgh, Scotland. As of November 30, 2006, we served our clients through 53 offices in the United States and 29 offices abroad.

Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

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

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

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

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

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

Stock-based Compensation—Under our 2004 Performance Incentive Plan, officers, employees, and outside directors have received or may receive grants of restricted stock, stock units, options to purchase common stock or, under our Employee Stock Purchase Plan ("ESPP"), may make employee stock purchases. Effective June 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 revised, "Share-Based Payment" ("SFAS 123 (R)"), using the modified prospective transition method; accordingly, prior periods have not been restated. Stock-based compensation expense recognized in the Company's Financial Statements for the three and six months ended November 30, 2006 included compensation expense for stock options granted prior to, but not yet vested as of May 31, 2006. Under the previously accepted accounting standards, there was no stock-based compensation expense related to employee stock options and employee stock purchases recognized during prior periods.

The adoption of SFAS 123 (R) requires that the Company estimate the fair value of employee stock options on the date of grant using an option-pricing model. We have elected to use the Black-Scholes option-pricing model which takes into account assumptions regarding a number of highly complex and subjective variables. These variables include the expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. Additional variables to be considered are the expected term and risk-free interest rate over the expected term of our employee stock options. In addition, because stock-based compensation expense recognized in the Statement of Income is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123 (R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience. If facts and circumstances change and we employ different assumptions in the application of SFAS 123 (R) in future periods, the compensation expense recorded under SFAS 123 (R) may differ materially from the amount recorded in the current period.

The weighted average estimated fair value per share of employee stock options granted during the three months ended November 30, 2006 was $14.46 using the Black-Scholes model with the following assumptions:

	Three months ended November 30, 2006
Expected volatility	48.0%
Risk-free interest rate	4.57%
Expected dividends	0.0%
Expected life	6.25 years

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The dividend yield assumption is based on our history of not paying dividends and our expectation that we will not pay dividends in the future. As permitted under Staff Accounting Bulletin No. 107 (“SAB No. 107”), the Company used the “vanilla option” term for measuring the expected life of stock option grants during the first six months of fiscal 2007; under this option, a stock option grant with a 10 year contractual life and four year vesting would have an expected life of 6.25 years. The Company is permitted to use this method of estimating the expected life of stock option grants through December 2007. Also as permitted under SAB No. 107, the Company has used its historical volatility to estimate the expected volatility of the price of its common stock.

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

Three Months Ended November 30, 2006 Compared to Three Months Ended November 30, 2005

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

Revenue. Revenue increased $24.7 million, or 15.6%, to $182.8 million for the three months ended November 30, 2006 from $158.1 million for the three months ended November 30, 2005. The continued expansion of our scope of services and improved overall demand for our services triggered the increase in revenue, resulting in more billable hours for our associates and an improvement in rate per hour. We believe our business expanded due in part to increasing market awareness of our ability to provide services. In particular, finance and accounting services increased significantly in the current quarter compared to the prior year quarter. We believe one of the reasons for the increase in these types of engagements is new projects from existing clients who had engaged us to provide services during their initial phase of compliance with Sarbanes. To a lesser extent, all of our other service lines experienced growth in the second quarter of fiscal 2007 compared to fiscal 2006’s second quarter (except for the RAS service line). Though we believe we have improved the awareness of our service offerings with clients and prospective clients in part because of assistance we have provided during the initial years of compliance with Sarbanes, there can be no assurance that there will be continuing demand for Sarbanes or related internal control services.

Average bill rates improved by 7.4% compared to the prior year average bill rate. The increase in revenue is also reflective of the increase in the number of associates on assignment from 2,882 at the end of the second quarter of fiscal 2006 to 3,195 at the end of the second quarter of fiscal 2007. We operated 82 and 72 offices in the first six months of fiscal 2007 and fiscal 2006, respectively. Our clients do not sign long-term contracts with us. Therefore, our future revenue or operating results cannot be reliably predicted from previous quarters or from extrapolation of past results.

Revenue for the United States offices improved 11.2% or $14.0 million from $125.0 million for the three months ended November 30, 2005 to $139.0 million for the three months ended November 30, 2006. Revenue for the Dutch practice improved 21.1% or $3.2 million, from $15.2 million for the three months ended November 30, 2005 to $18.4 million for the three months ended November 30, 2006. The other international offices’ revenue grew 41.7% or $7.5 million, from $18.0 million for the three months ended November 30, 2005 to $25.5 million for the three months ended November 30, 2006. The increase in revenue for the international practices was partially attributable to changes in the value of the U.S. dollar relative to the currencies of our international operations. These currency fluctuations increased revenue by approximately $1.8 million in the second quarter of fiscal 2007 compared to the second quarter of fiscal 2006.

Direct Cost of Services. Direct cost of services increased $15.0 million, or 15.8%, to $110.2 million for the three months ended November 30, 2006 from $95.2 million for the three months ended November 30, 2005. The increase in direct cost of services was attributable to the previously described expansion of the scope of services resulting in more chargeable hours for our associates at higher average pay rates; overall, the average pay rate per hour increased by 7.7% year-over-year. The direct cost of services as a percentage of revenue (the “direct cost of services percentage”) was 60.3% and 60.2% for the three months ended November 30, 2006 and 2005, respectively. The direct cost of services percentage increased slightly between the two quarters because of a slight increase in the ratio of direct payroll cost to hourly revenue.

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 ("S, G & A") increased as a percentage of revenue from 23.3% for the quarter ended November 30, 2005 to 25.5% for the quarter ended November 30, 2006. S, G &A increased $9.9 million, or 26.9%, to $46.7 million for the three months ended November 30, 2006 from $36.8 million for the three months ended November 30, 2005. The increase in S, G & A was primarily caused by the adoption in the first quarter of fiscal 2007 of the fair value recognition provisions of SFAS 123 (R). Prior to that date, the Company accounted for its stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". Under APB No. 25, the intrinsic value of the options was used to record compensation expense and if the grant price of the options was equal to the fair market value of the option at the date of grant, no compensation expense related to the stock options was included in determining net income and net income per share. Under SFAS 123 (R), the Company determines the estimated fair value of stock options using the Black-Scholes valuation model. The estimated fair value determined is recognized as expense over the service period for options that are expected to vest (the Company's stock options vest over four years). As a result of the implementation of SFAS 123 (R), the Company recognized non-cash stock-based compensation expense of $4.7 million for the three months ended November 30, 2006. There was no corresponding amount recorded during the three months ended November 30, 2005.

In addition to the increase caused by the adoption of SFAS 123 (R), compensation and related benefit expenses increased as the Company hired additional personnel to support and position the Company for potential future revenue growth. Management and administrative headcount grew from 647 at the end of the second quarter of fiscal 2006 to 766 at the end of the second quarter of fiscal 2007. Other increases in the 2007 fiscal second quarter compared to the second quarter of fiscal 2006 were: an increase in spending for advertising, as the Company launched a new branding campaign in various United States and international business periodicals; occupancy and related costs from relocated, expanded or new offices; and bonus expense as a result of the Company's improved revenue results.

Amortization and Depreciation Expense**.** Amortization of intangible assets decreased to $344,000 in the second quarter of fiscal 2007 compared to $435,000 in the prior year's second quarter. The Company has not completed an analysis of the allocation of goodwill related to its purchase during the fourth quarter of fiscal 2006 of a practice with offices in Bangalore and Mumbai, India or of the purchase of the remaining 20% of the stock of Nordic Spring in Sweden in the first quarter of fiscal 2007. The Company will consider a number of factors in performing this valuation, including a valuation of identifiable intangible assets but does not expect such a valuation to cause a material change in amortization. Pending completion of these reviews, amortization is expected to be $1,381,000 in fiscal 2007.

Depreciation expense increased from $545,000 for the three months ended November 30, 2005 to $1.4 million for the three months ended November 30, 2006. The increase in depreciation was related to a higher asset base due to the investments made in offices relocated or expanded since November 2005, and investments in the Company's new operating system and other information technology. Also, in October 2005, the Company completed the purchase of an office building in Irvine, California for approximately $9.3 million. The Company expects to transition its corporate office and domestic service center to the new location during fiscal 2007. As the Company completes the implementation of its information technology system, makes improvements to the new office building in anticipation of the corporate relocation and invests in expanded or new office space for existing offices, it is expected that the Company's depreciation expense will increase.

Interest Income**.** During the second quarter of fiscal 2007, interest income was $2.0 million compared to interest income of $1.1 million in the quarter ended November 30, 2005. The increase in interest income is a combination of a higher average cash balance available for investment in the second quarter of fiscal 2007 and the improved interest rates available year over year.

The Company has invested available cash in money market and commercial paper investments that have been classified as cash equivalents due to the short maturities of these investments. As of November 30, 2006, the Company also has $49.0 million of investments in government-agency bonds with remaining maturity dates between three months and one year from the balance sheet date, which are classified as short-term investments and considered "held-to-maturity" securities. In addition, the Company also holds $50.0 million in government-agency bonds with maturity dates in excess of one year from the balance sheet date. These bonds, classified as long-term investments, mature through October 2008, have coupon rates ranging from 4.9% to 5.5% and have also been classified in the November 30, 2006 consolidated balance sheet as "held-to-maturity" securities.

***Income Taxes*.** The provision for income taxes increased from $10.3 million for the three months ended November 30, 2005 to $11.6 million for the three months ended November 30, 2006. The effective tax rate was 44.1% for the second quarter of fiscal 2007 and 39.0% for the second quarter of fiscal 2006. As a result of the Company's adoption of SFAS 123 (R), the Company's projected effective tax rate increased by 4.1 percentage points in the second quarter of fiscal 2007. Under SFAS 123 (R), the Company cannot recognize a potential tax benefit for certain incentive stock option ("ISO") grants until and unless the holder exercises his or her option and then sells the shares within a certain period of time. In addition, the Company can only recognize a potential tax benefit for employees' acquisition and subsequent sale of shares purchased through the ESPP if the sale occurs within a certain defined period. As a result, the Company's provision for income taxes is likely to be volatile for the foreseeable future. Further, under SFAS 123 (R), these potential tax benefits associated with ISO grants fully vested at the date of adoption of SFAS 123 (R) will be recognized as additions to paid-in capital when and if those options are exercised and not as a reduction to the Company's tax provision. The Company recognized a benefit of approximately $790,000 related to stock-based compensation for nonqualified stock options expensed and for eligible disqualifying ISO exercises during the second quarter of fiscal 2007. Periodically, the Company reviews the components of both book and taxable income to analyze the adequacy of the tax provision. There can be no assurance that the Company's effective tax rate will not increase in the future.

Six Months Ended November 30, 2006 Compared to Six Months Ended November 30, 2005

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

***Revenue*.** Revenue increased $40.2 million, or 13.1%, to $347.9 million for the six months ended November 30, 2006 from $307.7 million for the six months ended November 30, 2005. The continued expansion of our scope of services and improved overall demand for our services triggered the increase in revenue, resulting in more billable hours for our associates and an improvement in rate per hour.

Average bill rates improved by 6.4% compared to the prior year average bill rate. The increase in revenue is also reflective of the increase in the number of associates on assignment from 2,882 at the end of the second quarter of fiscal 2006 to 3,195 at the end of the second quarter of fiscal 2007. We operated 82 and 72 offices in the first six months of fiscal 2007 and fiscal 2006, respectively.

Revenue for the United States offices improved 10.6% or $25.7 million from $241.5 million for the six months ended November 30, 2005 to $267.2 million for the six months ended November 30, 2006. Revenue for the Dutch practice improved 12.5% or $3.8 million, from $30.3 million for the six months ended November 30, 2005 to $34.1 million for the six months ended November 30, 2006. The other international offices' revenue grew 30.1% or $10.8 million, from $35.9 million for the six months ended November 30, 2005 to $46.7 million for the six months ended November 30, 2006. The increase in revenue for the international practices was partially attributable to changes in the value of the U.S. dollar relative to the currencies of our international operations. These currency fluctuations increased revenue by approximately $2.9 million in the first half of fiscal 2007 compared to the first half of fiscal 2006.

***Direct Cost of Services*.** Direct cost of services increased $24.3 million, or 13.1%, to $210.1 million for the six months ended November 30, 2006 from $185.8 million for the six months ended November 30, 2005. The increase in direct cost of services was attributable to the previously described expansion of the scope of services resulting in more chargeable hours for our associates at higher average pay rates; overall, the average pay rate per hour increased by 6.4% year-over-year. The direct cost of services percentage was 60.4% for both the six months ended November 30, 2006 and 2005.

***Selling, General and Administrative Expenses*.** S, G & A increased as a percentage of revenue from 23.0% for the six months ended November 30, 2005 to 26.3% for the six months ended November 30, 2006. S, G &A increased $20.6 million, or 29.1%, to $91.5 million for the six months ended November 30, 2006 from $70.9 million for the six months ended November 30, 2005. The increase in S, G & A was partially caused by the adoption in the first quarter of fiscal 2007 of the fair value recognition provisions of SFAS 123 (R). Prior to that date, the Company accounted for its stock-based compensation in accordance with the provisions of APB No. 25, "Accounting for Stock Issued to Employees". Under APB No. 25, the intrinsic value of the options was used to record compensation expense and if the grant price of the options was equal to the fair market value of the option at the date of grant, no compensation expense related to the stock options was included in determining net income and net income per share. Under SFAS 123 (R), the Company determines the estimated fair value of stock options using the Black-Scholes valuation model. The estimated fair value determined is recognized as expense over the service period for options that are expected to vest (the Company's stock options vest over four years). As a result of the implementation of SFAS 123 (R), the Company recognized non-cash stock-based compensation expense of $9.4 million in the first six months of fiscal 2007. There was no corresponding amount recorded in the first six months of fiscal 2006.

In addition to the increase caused by the adoption of SFAS 123 (R), compensation and related benefit expenses increased as the Company hired additional personnel to support and position the Company for potential future revenue growth. Management and administrative headcount grew from 647 at the end of the second quarter of fiscal 2006 to 766 at the end of the second quarter of fiscal 2007. Other increases in the first six months of fiscal 2007 compared to the first six months of fiscal 2006 were: occupancy and related costs from relocated, expanded or new offices; bonus expense as a result of the Company's improved revenue results; and an increase in spending for advertising, as the Company launched a new branding campaign in various United States and international business periodicals.

Amortization and Depreciation Expense. Amortization of intangible assets decreased slightly to $762,000 in the first six months of fiscal 2007 compared to $870,000 in the prior year's first six months, as amortization on some of the Company's identifiable intangible assets was complete.

Depreciation expense increased from $1.0 million for the six months ended November 30, 2005 to $2.8 million for the six months ended November 30, 2006. The increase in depreciation was related to a higher asset base due to the investments made in offices relocated or expanded since May 2005, and investments in the Company's new operating system and other information technology.

Interest Income. During the first six months of fiscal 2007, interest income was $3.9 million compared to interest income of $2.1 million in the six months ended November 30, 2005. The increase in interest income is a combination of a higher average cash balance available for investment in the first six months of fiscal 2007 and the improved interest rates available year over year.

Income Taxes. The provision for income taxes increased from $20.1 million for the six months ended November 30, 2005 to $21.1 million for the six months ended November 30, 2006. The effective tax rate was 45.2% for the first six months of fiscal 2007 and 39.3% for the first six months of fiscal 2006. As a result of the Company's adoption of SFAS 123 (R), the Company's projected effective tax rate increased by 5.2 percentage points in the first six months of fiscal 2007. Under SFAS 123 (R), the Company cannot recognize a potential tax benefit for certain incentive stock option grants until and unless the holder exercises his or her option and then sells the shares within a certain period of time. In addition, the Company can only recognize a potential tax benefit for employees' acquisition and subsequent sale of shares purchased through the ESPP if the sale occurs within a certain defined period. As a result, the Company's provision for income taxes is likely to be volatile for the foreseeable future. Further, under SFAS 123 (R), these potential tax benefits associated with ISO grants fully vested at the date of adoption of SFAS 123 (R) will be recognized as additions to paid-in capital when and if those options are exercised and not as a reduction to the Company's tax provision. The Company recognized a benefit of approximately $1.3 million related to stock-based compensation for nonqualified stock options expensed and for eligible disqualifying ISO exercises during the first six months of fiscal 2007.

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 in Part II, Item 1A-Risk Factors. 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. On an annual basis, we have generated positive cash flows from operations since inception.

The Company has a $3.0 million unsecured revolving credit facility with Bank of America (the "Credit Agreement"). The Credit Agreement allows the Company to choose the interest rate applicable to advances. The interest rate options are Bank of America's prime rate, a London Inter-Bank Offered ("LIBOR") rate plus 1.5% or Bank of America's Grand Cayman Banking Center ("IBOR") rate plus 1.5%. Interest, if any, is payable monthly. There is an annual facility fee of 0.25% payable on the unutilized portion of the Credit Agreement. The Credit Agreement expires December 1, 2007. As of November 30, 2006, the Company had $2.7 million available under the terms of the Credit Agreement as Bank of America has issued $300,000 of outstanding letters of credit in favor of third parties related to operating leases. The Company is in compliance with all covenants included in the Credit Agreement.

Net cash provided by operating activities was $24.2 million for the six months ended November 30, 2006 compared to $24.2 million for the six months ended November 30, 2005. Cash provided by operations in the first six months of fiscal 2007 resulted from the net income of the Company of $25.6 million, adjusted for non-cash items of $10.4 million, offset by net cash used for changes in operating assets and liabilities of $11.8 million. In the first six months of fiscal 2006, cash provided by operations resulted from net income of the Company of $31.1 million, adjusted for non-cash items of $2.7 million, offset by net cash used for changes in operating assets and liabilities of $9.6 million. Non-cash items increased in the first six months of fiscal 2007 as a result of the Company's adoption of the accounting required in SFAS 123 (R) to expense stock-based compensation; these charges do not reflect an actual cash outflow from the Company but are an estimate of the fair value of the services provided by employees and directors in exchange for stock option grants and purchase of stock through the Company's ESPP. As of November 30, 2006, the Company had $100.2 million of cash and cash equivalents, $49.0 million of short-term United States government agency bonds and $50.0 million of long-term United States government agency bonds.

Net cash used in investing activities totaled $8.1 million for the first six months of fiscal 2007 compared to $4.6 million in the first six months of fiscal 2006. Cash used to invest in short-term and long-term marketable securities (commercial paper and government agency bonds) net of cash received from the redemption of short-term and long-term investments, resulted in a net use of $2.0 million in the first six months of fiscal 2007 compared to a net increase of $8.0 million in the first six months of fiscal 2006. In addition, the Company spent approximately $4.6 million on property and equipment in the first six months of fiscal 2007, compared to $12.6 million in the first six months of fiscal 2006. The Company also settled its liability for the purchase of the remaining shares of Nordic Spring for $1.5 million in fiscal 2007.

Net cash used in financing activities totaled $4.4 million for the six months ended November 30, 2006, compared to net cash provided of $8.4 million for the six months ended November 30, 2005. The primary cause of the change was the Company's repurchase during the first quarter of fiscal 2007 of 600,000 shares of its common stock at an average price of $23.55 per share for approximately $14.1 million. Cash received from stock option exercises and purchases of common stock through the ESPP was $8.5 million in the first six months of fiscal 2007 compared to $8.4 million in the corresponding period of fiscal 2006.

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

Recent Accounting Pronouncements

In September 2006, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation". This EITF requires that Company's disclose how they report, within their financial statements, taxes assessed by a governmental authority that involve a specific revenue producing transaction between a seller and a customer. These types of taxes may include, but are not limited to, sales, use, value added and excise taxes. These taxes collected from customers may be presented either on a gross basis (that is, included in revenue and cost of services) or on a net basis (excluded from revenue and cost of services but included as a liability in the balance sheet until the tax has been remitted to the appropriate governmental authority). The Company has adopted EITF Issue No. 06-03 effective in this second quarter of fiscal 2007, disclosing that it accounts for such taxes on a net basis.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"), which provides guidance for recognition of a net liability or asset to report the funded status of company defined benefit pension and other postretirement benefit plans (collectively referred to herein as "benefit plans") on company balance sheets. The pronouncement clarifies (1) recognition of the funded status of a benefit plan in its statement of financial position; (2) recognition as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FASB Statement No. 87, "Employers' Accounting for Pensions", or No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"; (3) measurement of defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions); and (4) disclosure requirements in the notes to financial statements with additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. SFAS 158 is effective as of the beginning of our 2008 fiscal year. The Company does not expect the adoption of SFAS 158 to have a material impact on its consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which provides guidance for using fair value to measure assets and liabilities. The pronouncement clarifies (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS 157 is effective as of the beginning of our 2009 fiscal year. The Company does not expect the adoption of SFAS 157 to have a material impact on its consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes", which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Company recognize the impact of a tax position in its financial statements, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of our 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on our financial statements.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. At the end of the second quarter of fiscal 2007, we had approximately $199.2 million of cash, highly liquid short-term investments and long-term investments. Securities that the Company has the ability and positive intent to hold to maturity are carried at amortized cost. These securities consist of commercial paper and government-agency bonds. Cost approximates market for these securities. All income generated from these current investments is recorded as interest income.

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

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

For the quarter ended November 30, 2006, approximately 24% of the Company's revenues were generated outside of the United States. As a result, our operating results are subject to fluctuations in the exchange rates of foreign currencies in relation to the U.S. dollar. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates prevailing during the period. Thus, as the value of the U.S. dollar fluctuates relative to the currencies in our non-U.S. based operations, our reported results may vary.

Assets and liabilities of our non-U.S. based operations are translated into U.S. dollars at the exchange rate effective at the end of each monthly reporting period. Ninety percent (90%) of our balances of cash, short-term investments and long-term investments as of November 30, 2006 were denominated in U.S. dollars. The remaining 10% was comprised primarily of cash balances translated from Euros, British Pounds, Hong Kong Dollars, Swedish Krona or Japanese Yen. The difference resulting from the translation each period of assets and liabilities of our non-U.S. based operations are recorded in stockholders' equity as a component of accumulated other comprehensive gain (loss).

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

ITEM 4. CONTROLS AND PROCEDURES

As of the end of second quarter of fiscal 2007, the Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of November 30, 2006 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There was no change in the Company's internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act, during the Company's quarter ended November 30, 2006 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any material legal proceedings.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2006, which was filed with the Securities and Exchange Commission on August 9, 2006. 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 that 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.

Decreased effectiveness of equity compensation could adversely affect our ability to attract and retain employees.

We have historically used stock (via our ESPP) and stock options as key components of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. As a result of our adoption of Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" ("SFAS 123 (R)") during the first quarter of fiscal 2007, the future use of stock options and other stock-based awards to attract and retain employees could become more limited due to the possible impact on our results of operations. This development could make it more difficult to attract, retain and motivate employees.

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;
- traditional and Internet-based staffing firms; and
- the in-house resources of our clients.

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

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

During the downturn in the economy of the United States during fiscal 2002 and 2003, our business was adversely affected. As the general level of economic activity slowed, our clients delayed or cancelled plans that involved professional services, particularly outsourced professional services. Consequently, we experienced fluctuations in the demand for our services. In addition, the use of professional services associates on a project-by-project basis could decline for non-economic reasons. In the event of a 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 in-house procurement groups that manage their relationship with service providers.

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

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

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

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

We grew rapidly from our inception in 1996 until 2001 by opening new offices and by increasing the volume of services we provide through existing offices. We experienced a decline in revenue in fiscal 2002, but revenue has increased in each subsequent fiscal year. However, there can be no assurance that we will 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 growth during fiscal 2004 and 2005 was caused by clients' demands related to compliance with certain sections of Sarbanes. As initial demand for Sarbanes related services slows, our ability to successfully grow our business will depend upon a number of factors, including our ability to:

- grow our client base;
- expand profitably into new cities;
- provide additional professional services lines;
- hire qualified and experienced associates;
- maintain margins in the face of pricing pressures;
- manage costs; and
- maintain or grow revenues for both Sarbanes-related services as well as other service lines from clients who have initially 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 face if we conducted our operations solely in the United States. Any of these risks or expenses could cause 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 United States' 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;
- incurrence of significant non-recurring charges;
- incurrence of additional debt with restrictive covenants or other limitations;
- dilution of our stock as a result of issuing equity securities; and
- assumption of liabilities of the acquired company.

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

Our future success depends upon the continued employment of Donald B. Murray, our chief executive officer, and Stephen J. Giusto, our chief financial officer. The departure of Mr. Murray, Mr. Giusto or other members of our management team could significantly disrupt our operations. Key members of our senior management team also include Karen M. Ferguson, an executive vice president, Anthony Cherbak, executive vice president and chief operating officer, John D. Bower, senior vice president, finance, and Kate W. Duchene, chief legal officer and executive vice president of human relations. We do not have employment agreements with Mr. Cherbak, 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 the 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 the average length of employment with the Company increases;
- the number of holidays in a quarter, particularly the day of the week on which they occur;
- changes in the pricing of our professional services or those of our competitors;
- the amount and timing of operating costs and capital expenditures relating to management and expansion of our business;
- the timing of acquisitions and related costs, such as compensation charges that fluctuate based on the market price of our common stock; and
- the periodic fourth quarter consisting of 14 weeks.

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

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

Section 404 of Sarbanes requires us to evaluate periodically the effectiveness of our internal control over financial reporting, and to include a management report assessing the effectiveness of our internal controls as of the end of each fiscal year. Section 404 also requires our independent registered public accountant to attest to, and report on, management's assessment of our internal control over financial reporting.

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

Although our management has determined, and our independent registered public accountant has attested, that internal control over financial reporting was effective as of May 31, 2006, we cannot assure you that we or our independent registered public accountant will not identify a material weakness in our internal controls in the future. A material weakness in our internal control over financial reporting would require management and our independent registered public accountant to evaluate our internal controls as ineffective. If our internal control over financial reporting is not considered adequate, we may experience a loss of public confidence, which could have an adverse effect on our business and our stock price. Additionally, if our internal controls over financial reporting otherwise fail to comply with the requirements of Sarbanes, our business and stock price could be adversely affected.

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

In connection with providing services to clients in certain regulated industries, such as the gaming and energy industries, we are subject to industry-specific regulations, including licensing and reporting requirements. Complying with these requirements is costly and, if we fail to comply, we could be prevented from rendering services to clients in those industries in the future. Additionally, changes in these requirements, or in other laws applicable to us, in the future could increase our costs of compliance.

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

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

- authorize our Board of Directors to establish one or more series of undesignated preferred stock, the terms of which can be determined by the Board of Directors at the time of issuance;
- divide our Board of Directors into three classes of directors, with each class serving a staggered three-year term. Because the classification of the Board of Directors generally increases the difficulty of replacing a majority of the directors, it may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us and may make it difficult to change the composition of the Board of Directors;
- prohibit cumulative voting in the election of directors which, if not prohibited, could allow a minority stockholder holding a sufficient percentage of a class of shares to ensure the election of one or more directors;
- require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing;
- state that special meetings of our stockholders may be called only by the chairman of the Board of Directors, by 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 of 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 is described further in Note 10— *Stockholders' Equity* of the "Notes to Consolidated Financial Statements" included in our Report on Form 10-K for the fiscal year ended May 31, 2006. The existence of this rights plan may also have the effect of delaying, deferring or preventing a change of control of our Company or our management by deterring acquisitions of our stock not approved by our Board of Directors.

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

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

Beginning with the first quarter of fiscal 2007, we were required to recognize compensation expense related to employee stock options and our employee stock purchase plan. There is no assurance that the expense that we are required to recognize measures accurately the value of our share-based payment awards and the recognition of this expense could cause the trading price of our common stock to decline.

Effective as of the beginning of the first quarter of fiscal 2007, we were required to adopt SFAS 123 (R), which requires the measurement and recognition of compensation expense for all stock-based compensation based on estimated fair values. As a result, starting with fiscal 2007, our operating results contain a charge for stock-based compensation expense related to employee stock options and our employee stock purchase plan. The application of SFAS 123 (R) generally requires the use of an option-pricing model to determine the estimated fair value of share-based payment awards. This determination of estimated fair value is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Because our employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion the existing valuation models may not provide an accurate measure of the estimated fair value of our employee stock options. Although the estimated fair value of employee stock options is determined in accordance with SFAS 123 (R) and Staff Accounting Bulletin No. 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

As a result of the adoption of SFAS 123 (R), our earnings will be lower than they would have been had we not been required to adopt SFAS 123 (R). There may also be variability in our income after income tax provision due to the timing of the exercise of options that trigger disqualifying dispositions. This will continue to be the case for future periods. We cannot predict the effect that this adverse impact on our reported operating results will have on the trading price of our common stock.

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

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

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

None.

Item 3. Defaults upon Senior Securities

None.

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

On October 19, 2006, the Company held its annual meeting of stockholders. The following matters were presented to stockholders for ratification:

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

Nominee	Shares For	Shares Withheld
Donald B. Murray	47,048,052	1,086,719
A. Robert Pisano	46,075,951	2,058,820
Thomas D. Christopoul	47,710,037	424,734

The continuing directors, whose terms of office did not expire at the meeting, are Neil Dimick, Karen M. Ferguson, Stephen J. Giusto, Robert F. Kistinger and Jolene Sykes Sarkis. (1)

2. The approval of a proposal to amend the Resources Connection 2004 Performance Incentive Plan to increase the number of shares available for award grants by 1,500,000.

Shares For	Against	Abstain
36,904,117	6,923,797	76,407

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

Shares For	Against	Abstain
48,073,585	53,332	7,853

Item 5. Other Information

None.

Item 6. Exhibits

a) Exhibits

10.20 Resources Connection, Inc. 2004 Performance Incentive Plan.*

31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

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* Filed herewith

(1) Julie Hill resigned as a director of the Company in December 2006. The resulting vacancy has not yet been filled.

SIGNATURES

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

	RESOURCES CONNECTION, INC.
Date: January 4, 2007	/s/ Donald B. Murray
	Donald B. Murray **President and Chief Executive Officer**
Date: January 4, 2007	/s/ Stephen J. Giusto
	Stephen J. Giusto **Chief Financial Officer, Executive Vice President of Corporate Development and Secretary** **(Principal Financial Officer)**

EXHIBIT 10.20

RESOURCES CONNECTION, INC.
2004 PERFORMANCE INCENTIVE PLAN

1. PURPOSE OF PLAN

The purpose of this Resources Connection, Inc. 2004 Performance Incentive Plan (this "**Plan**") of Resources Connection, Inc., a Delaware corporation (the "**Corporation**"), is to promote the success of the Corporation and to increase stockholder value by providing an additional means through the grant of awards to attract, motivate, retain and reward selected employees and other eligible persons.

2. ELIGIBILITY

The Administrator (as such term is defined in Section 3.1) may grant awards under this Plan only to those persons that the Administrator determines to be Eligible Persons. An "**Eligible Person**" is any person who is either: (a) an officer (whether or not a director) or employee of the Corporation or one of its Subsidiaries; (b) a director of the Corporation or one of its Subsidiaries; or (c) an individual consultant or advisor who renders or has rendered bona fide services (other than services in connection with the offering or sale of securities of the Corporation or one of its Subsidiaries in a capital-raising transaction or as a market maker or promoter of securities of the Corporation or one of its Subsidiaries) to the Corporation or one of its Subsidiaries and who is selected to participate in this Plan by the Administrator; provided, however, that a person who is otherwise an Eligible Person under clause (c) above may participate in this Plan only if such participation would not adversely affect either the Corporation's eligibility to use Form S-8 to register under the Securities Act of 1933, as amended (the "**Securities Act**"), the offering and sale of shares issuable under this Plan by the Corporation or the Corporation's compliance with any other applicable laws. An Eligible Person who has been granted an award (a "participant") may, if otherwise eligible, be granted additional awards if the Administrator shall so determine. As used herein, "**Subsidiary**" means any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Corporation; and "**Board**" means the Board of Directors of the Corporation.

3. PLAN ADMINISTRATION

3.1 ***The Administrator***. This Plan shall be administered by and all awards under this Plan shall be authorized by the Administrator. The "**Administrator**" means the Board or one or more committees appointed by the Board or another committee (within its delegated authority) to administer all or certain aspects of this Plan. Any such committee shall be comprised solely of one or more directors or such number of directors as may be required under applicable law. A committee may delegate some or all of its authority to another committee so constituted. The Board or a committee comprised solely of directors may also delegate, to the extent permitted by Section 157(c) of the Delaware General Corporation Law and any other applicable law, to one or more officers of the Corporation, its powers under this Plan (a) to designate the officers and employees of the Corporation and its Subsidiaries who will receive grants of awards under this Plan, and (b) to determine the number of shares subject to, and the other terms and conditions of, such awards. The Board may delegate different levels of authority to different committees with administrative and grant authority under this Plan. Unless otherwise provided in the Bylaws of the Corporation or the applicable charter of any Administrator: (a) a majority of the members of the acting Administrator shall constitute a quorum, and (b) the vote of a majority of the members present assuming the presence of a quorum or the unanimous written consent of the members of the Administrator shall constitute action by the acting Administrator.

With respect to awards intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "**Code**"), this Plan shall be administered by a committee consisting solely of two or more outside directors (as this requirement is applied under Section 162(m) of the Code); provided, however, that the failure to satisfy such requirement shall not affect the validity of the action of any committee otherwise duly authorized and acting in the matter. Award grants, and transactions in or involving awards, intended to be exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), must be duly and timely authorized by the Board or a committee consisting solely of two or more non-employee directors (as this requirement is applied under Rule 16b-3 promulgated under the Exchange Act). To the extent required by any applicable listing agency, this Plan shall be administered by a committee composed entirely of independent directors (within the meaning of the applicable listing agency).

3.2 ***Powers of the Administrator***. Subject to the express provisions of this Plan, the Administrator is authorized and empowered to do all things necessary or desirable in connection with the authorization of awards and the administration of this Plan (in the case of a committee or delegation to one or more officers, within the authority delegated to that committee or person(s)), including, without limitation, the authority to:

(a) determine eligibility and, from among those persons determined to be eligible, the particular Eligible Persons who will receive an award under this Plan;

(b) grant awards to Eligible Persons, determine the price at which securities will be offered or awarded and the number of securities to be offered or awarded to any of such persons, determine the other specific terms and conditions of such awards consistent with the express limits of this Plan, establish the installments (if any) in which such awards shall become exercisable or shall vest (which may include, without limitation, performance and/or time-based schedules), or determine that no delayed exercisability or vesting is required, establish any applicable performance targets, and establish the events of termination or reversion of such awards;

(c) approve the forms of award agreements (which need not be identical either as to type of award or among participants);

(d) construe and interpret this Plan and any agreements defining the rights and obligations of the Corporation, its Subsidiaries, and participants under this Plan, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan or the awards granted under this Plan;

(e) cancel, modify, or waive the Corporation's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consent under Section 8.6.5;

(f) accelerate or extend the vesting or exercisability or extend the term of any or all such outstanding awards (in the case of options, within the maximum ten-year term of such awards) in such circumstances as the Administrator may deem appropriate (including, without limitation, in connection with a termination of employment or services or other events of a personal nature) subject to any required consent under Section 8.6.5;

(g) adjust the number of shares of Common Stock subject to any award, adjust the price of any or all outstanding awards or otherwise change previously imposed terms and conditions, in such circumstances as the Administrator may deem appropriate, in each case subject to Sections 4 and 8.6, and provided that in no case (except due to an adjustment contemplated by Section 7 or any repricing that may be approved by stockholders) shall such an adjustment constitute a repricing (by amendment, cancellation and regrant, exchange or other means) of the per share exercise of any option;

(h) determine the date of grant of an award, which may be a designated date after but not before the date of the Administrator's action (unless otherwise designated by the Administrator, the date of grant of an award shall be the date upon which the Administrator took the action granting an award);

(i) determine whether, and the extent to which, adjustments are required pursuant to Section 7 hereof and authorize the termination, conversion, substitution or succession of awards upon the occurrence of an event of the type described in Section 7;

(j) acquire or settle (subject to Sections 7 and 8.6) rights under awards in cash, stock of equivalent value, or other consideration; and

(k) determine the fair market value of the Common Stock or awards under this Plan from time to time and/or the manner in which such value will be determined.

3.3 ***Binding Determinations***. Any action taken by, or inaction of, the Corporation, any Subsidiary, or the Administrator relating or pursuant to this Plan and within its authority hereunder or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. Neither the Board nor any Board committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan (or any award made under this Plan), and all such persons shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time.

3.4 ***Reliance on Experts***. In making any determination or in taking or not taking any action under this Plan, the Administrator may obtain and may rely upon the advice of experts, including employees and professional advisors to the Corporation. No director, officer or agent of the Corporation or any of its Subsidiaries shall be liable for any such action or determination taken or made or omitted in good faith.

3.5 ***Delegation***. The Administrator may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Corporation or any of its Subsidiaries or to third parties.

4. SHARES OF COMMON STOCK SUBJECT TO THE PLAN; SHARE LIMITS

4.1 ***Shares Available***. Subject to the provisions of Section 7.1, the capital stock that may be delivered under this Plan shall be shares of the Corporation's authorized but unissued Common Stock and any shares of its Common Stock held as treasury shares. For purposes of this Plan, "**Common Stock**" shall mean the common stock of the Corporation and such other securities or property as may become the subject of awards under this Plan, or may become subject to such awards, pursuant to an adjustment made under Section 7.1.

4.2 ***Share Limits***.

4.2.1 ***Overall Share Limit***. The maximum number of shares of Common Stock that may be delivered pursuant to awards granted to Eligible Persons under this Plan (the "**Share Limit**") is equal to the sum of the following:

(a) 5,500,000 shares of Common Stock, plus

(b) the number of shares of Common Stock available for additional award grant purposes under the Corporation's 1999 Long Term Incentive Plan (the "**1999 Plan**") as of the date of stockholder approval of this Plan (the "**Stockholder Approval Date**") and determined immediately prior to the termination of the authority to grant new awards under the 1999 Plan as of the Stockholder Approval Date, plus

(c) the number of any shares subject to stock options granted under the 1999 Plan and outstanding on the Stockholder Approval Date which expire, or for any reason are cancelled or terminated, after the Stockholder Approval Date without being exercised;

provided that in no event shall the Share Limit exceed 14,218,662 shares (which is the sum of the 5,500,000 shares set forth above, plus the number of shares available under the 1999 Plan for additional award grant purposes as of the Effective Date (as such term is defined in Section 8.6.1), plus the aggregate number of shares subject to options previously granted and outstanding under the 1999 Plan as of the Effective Date).

4.2.2 *Full-Value Awards*. Shares issued in respect of any "full-value award" granted under this Plan shall be counted against the Share Limit as two shares for every share actually issued in connection with the award. For purposes of this Section 4.2.2, a "full-value award" includes all awards granted under this Plan except option grants the per share exercise price of which is at least equal to the fair market value of a share of Common Stock at the time of the option grant.

4.2.3 *Other Share Limits*. The following limits also apply with respect to awards granted under this Plan:

(a) The maximum number of shares of Common Stock that may be delivered pursuant to options qualified as incentive stock options granted under this Plan is 4,000,000 shares.

(b) The maximum number of shares of Common Stock subject to those options that are granted during any calendar year to any individual under this Plan is 400,000 shares.

(c) The maximum number of shares of Common Stock subject to all awards that are granted during any calendar year to any individual under this Plan is 400,000 shares. This limit does not apply, however, to shares delivered in respect of compensation earned but deferred.

(d) The maximum number of shares of Common Stock that may be delivered pursuant to awards granted to non-employee directors under this Plan is 500,000 shares. This limit does not apply, however, to shares delivered in respect of compensation earned but deferred. For this purpose, a "non-employee director" is a member of the Board who is not an officer or employee of the Corporation or one of its Subsidiaries.

(e) Additional limits with respect to Performance-Based Awards are set forth in Section 5.2.3.

4.2.4 *Adjustments*. Each of the numerical limits set forth in Sections 4.2.1 and 4.2.3 is subject to adjustment as contemplated by Section 4.3, Section 7.1, and Section 8.10.

4.3 ***Awards Settled in Cash, Reissue of Awards and Shares***. To the extent that an award is settled in cash or a form other than shares of Common Stock, the shares that would have been delivered had there been no such cash or other settlement shall not be counted against the shares available for issuance under this Plan. In the event that shares of Common Stock are delivered in respect of a dividend equivalent right, only the actual number of shares delivered with respect to the award shall be counted against the share limits of this Plan. To the extent that shares of Common Stock are delivered pursuant to the exercise of a stock option, the number of underlying shares as to which the exercise related shall be counted against the applicable share limits under Section 4.2, as opposed to only counting the shares actually issued. Shares that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan shall again be available for subsequent awards under this Plan. Shares that are exchanged by a participant or withheld by the Corporation as full or partial payment in connection with any award under this Plan (or under the 1999 Plan), as well as any shares exchanged by a participant or withheld by the Corporation or one of its Subsidiaries to satisfy the tax withholding obligations related to any award under this Plan (or under the 1999 Plan), shall not be available for subsequent awards under this Plan. Refer to Section 8.10 for application of the foregoing share limits with respect to assumed awards. The foregoing adjustments to the share limits of this Plan are subject to any applicable limitations under Section 162(m) of the Code with respect to awards intended as performance-based compensation thereunder.

4.4 ***Reservation of Shares; No Fractional Shares; Minimum Issue***. The Corporation shall at all times reserve a number of shares of Common Stock sufficient to cover the Corporation's obligations and contingent obligations to deliver shares with respect to awards then outstanding under this Plan (exclusive of any dividend equivalent obligations to the extent the Corporation has the right to settle such rights in cash). No fractional shares shall be delivered under this Plan. The Administrator may pay cash in lieu of any fractional shares in settlements of awards under this Plan. No fewer than 100 shares may be purchased on exercise of any award unless the total number purchased or exercised is the total number at the time available for purchase or exercise under the award.

5. AWARDS

5.1 ***Type and Form of Awards***. The Administrator shall determine the type or types of award(s) to be made to each selected Eligible Person. Awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of the Corporation or one of its Subsidiaries. The types of awards that may be granted under this Plan are:

5.1.1 ***Stock Options***. A stock option is the grant of a right to purchase a specified number of shares of Common Stock during a specified period as determined by the Administrator. An option may be intended as an incentive stock option within the meaning of Section 422 of the Code (an "ISO") or a nonqualified stock option (an option not intended to be an ISO). The award agreement for an option will indicate if the option is intended as an ISO; otherwise it will be deemed to be a nonqualified stock option. The maximum term of each option (ISO or nonqualified) shall be ten (10) years. Except in the case of an option granted pursuant to Section 8.10, the per share exercise price for each option shall be not less than 100% of the fair market value of a share of Common Stock on the date of grant of the option. When an option is exercised, the exercise price for the shares to be purchased shall be paid in full in cash or such other method permitted by the Administrator consistent with Section 5.5.

5.1.2 ***Additional Rules Applicable to ISOs***. To the extent that the aggregate fair market value (determined at the time of grant of the applicable option) of stock with respect to which ISOs first become exercisable by a participant in any calendar year exceeds $100,000, taking into account both Common Stock subject to ISOs under this Plan and stock subject to ISOs under all other plans of the Corporation or one of its Subsidiaries (or any parent or predecessor corporation to the extent required by and within the meaning of Section 422 of the Code and the regulations promulgated thereunder), such options shall be treated as nonqualified stock options. In reducing the number of options treated as ISOs to meet the $100,000 limit, the most recently granted options shall be reduced first. To the extent a reduction of simultaneously granted options is necessary to meet the $100,000 limit, the Administrator may, in the manner and to the extent permitted by law, designate which shares of Common Stock are to be treated as shares acquired pursuant to the exercise of an ISO. ISOs may only be granted to employees of the Corporation or one of its subsidiaries (for this purpose, the term "subsidiary" is used as defined in Section 424(f) of the Code, which generally requires an unbroken chain of ownership of at least 50% of the total combined voting power of all classes of stock of each subsidiary in the chain beginning with the Corporation and ending with the subsidiary in question). There shall be imposed in any award agreement relating to ISOs such other terms and conditions as from time to time are required in order that the option be an "incentive stock option" as that term is defined in Section 422 of the Code. No ISO may be granted to any person who, at the time the option is granted, owns (or is deemed to own under Section 424(d) of the Code) shares of outstanding Common Stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation, unless the exercise price of such option is at least 110% of the fair market value of the stock subject to the option and such option by its terms is not exercisable after the expiration of five years from the date such option is granted.

5.1.3 ***Other Awards***. The other types of awards that may be granted under this Plan include: (a) stock bonuses, restricted stock, performance stock, stock units, phantom stock, dividend equivalents, or similar rights to purchase or acquire shares, whether at a fixed or variable price or ratio related to the Common Stock, upon the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or any combination thereof; (b) any similar securities with a value derived from the value of or related to the Common Stock and/or returns thereon; or (c) cash awards granted consistent with Section 5.2 below.

5.2 ***Section 162(m) Performance-Based Awards***. Without limiting the generality of the foregoing, any of the types of awards listed in Section 5.1.3 above may be, and options granted to officers and employees with an exercise price not less than the fair market value of a share of Common Stock at the date of grant ("**Qualifying Options**") typically will be, granted as awards intended to satisfy the requirements for "performance-based compensation" within the meaning of Section 162(m) of the Code ("**Performance-Based Awards**"). The grant, vesting, exercisability or payment of Performance-Based Awards may depend (or, in the case of Qualifying Options, may also depend) on the degree of achievement of one or more performance goals relative to a pre-established targeted level or level using one or more of the Business Criteria set forth below (on an absolute or relative basis) for the Corporation on a consolidated basis or for one or more of the Corporation's subsidiaries, segments, divisions or business units, or any combination of the foregoing. Any Qualifying Option shall be subject only to the requirements of Section 5.2.1 and 5.2.3 in order for such award to satisfy the requirements for "performance-based compensation" under Section 162(m) of the Award. Any other Performance-Based Award shall be subject to all of the following provisions of this Section 5.2.

5.2.1 ***Class; Administrator***. The eligible class of persons for Performance-Based Awards under this Section 5.2 shall be officers and employees of the Corporation or one of its Subsidiaries. The Administrator approving Performance-Based Awards or making any certification required pursuant to Section 5.2.4 must be constituted as provided in Section 3.1 for awards that are intended as performance-based compensation under Section 162(m) of the Code.

5.2.2 ***Performance Goals***. The specific performance goals for Performance-Based Awards (other than Qualifying Options) shall be, on an absolute or relative basis, established based on one or more of the following business criteria ("**Business Criteria**") as selected by the Administrator in its sole discretion: earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), total stockholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity or on assets or on net investment, cost containment or reduction, or any combination thereof. These terms are used as applied under generally accepted accounting principles or in the financial reporting of the Corporation or of its Subsidiaries. To qualify awards as performance-based under Section 162(m), the applicable Business Criterion (or Business Criteria, as the case may be) and specific performance goal or goals ("targets") must be established and approved by the Administrator during the first 90 days of the performance period (and, in the case of performance periods of less than one year, in no event after 25% or more of the performance period has elapsed) and while performance relating to such target(s) remains substantially uncertain within the meaning of Section 162(m) of the Code. Performance targets shall be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the targets were set unless the Administrator provides otherwise at the time of establishing the targets. The applicable performance measurement period may not be less than three months nor more than 10 years.

5.2.3 ***Form of Payment; Maximum Performance-Based Award***. Grants or awards under this Section 5.2 may be paid in cash or shares of Common Stock or any combination thereof. Grants of

Qualifying Options to any one participant in any one calendar year shall be subject to the limit set forth in Section 4.2.3(b). The maximum number of shares of Common Stock which may be delivered pursuant to Performance-Based Awards (other than Qualifying Options and cash awards covered by the following sentence) that are granted to any one participant in any one calendar year shall not exceed 200,000 shares, either individually or in the aggregate, subject to adjustment as provided in Section 7.1. In addition, the aggregate amount of compensation to be paid to any one participant in respect of all Performance-Based Awards payable only in cash and not related to shares of Common Stock and granted to that participant in any one calendar year shall not exceed $1,500,000. Awards that are cancelled during the year shall be counted against these limits to the extent permitted by Section 162(m) of the Code.

5.2.4 ***Certification of Payment***. Before any Performance-Based Award under this Section 5.2 (other than Qualifying Options) is paid and to the extent required to qualify the award as performance-based compensation within the meaning of Section 162(m) of the Code, the Administrator must certify in writing that the performance target(s) and any other material terms of the Performance-Based Award were in fact timely satisfied.

5.2.5 ***Reservation of Discretion***. The Administrator will have the discretion to determine the restrictions or other limitations of the individual awards granted under this Section 5.2 including the authority to reduce awards, payouts or vesting or to pay no awards, in its sole discretion, if the Administrator preserves such authority at the time of grant by language to this effect in its authorizing resolutions or otherwise.

5.2.6 ***Expiration of Grant Authority***. As required pursuant to Section 162(m) of the Code and the regulations promulgated thereunder, the Administrator's authority to grant new awards that are intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code (other than Qualifying Options) shall terminate upon the first meeting of the Corporation's stockholders that occurs in the fifth year following the year in which the Corporation's stockholders first approve this Plan.

5.3 ***Award Agreements***. Each award shall be evidenced by a written award agreement in the form approved by the Administrator and executed on behalf of the Corporation and, if required by the Administrator, executed by the recipient of the award. The Administrator may authorize any officer of the Corporation (other than the particular award recipient) to execute any or all award agreements on behalf of the Corporation. The award agreement shall set forth the material terms and conditions of the award as established by the Administrator consistent with the express limitations of this Plan.

5.4 ***Deferrals and Settlements***. Payment of awards may be in the form of cash, Common Stock, other awards or combinations thereof as the Administrator shall determine, and with such restrictions as it may impose. The Administrator may also require or permit participants to elect to defer the issuance of shares or the settlement of awards in cash under such rules and procedures as it may establish under this Plan. The Administrator may also provide that deferred settlements include the payment or crediting of interest or other earnings on the deferral amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares.

5.5 ***Consideration for Common Stock or Awards***. The purchase price for any award granted under this Plan or the Common Stock to be delivered pursuant to an award, as applicable, may be paid by means of any lawful consideration as determined by the Administrator, including, without limitation, one or a combination of the following methods:

- services rendered by the recipient of such award;
- cash, check payable to the order of the Corporation, or electronic funds transfer;
- notice and third party payment in such manner as may be authorized by the Administrator;
- by a reduction in the number of shares otherwise deliverable pursuant to the award; or

- subject to such procedures as the Administrator may adopt, pursuant to a “cashless exercise” with a third party who provides financing for the purposes of (or who otherwise facilitates) the purchase or exercise of awards.

In no event shall any shares newly-issued by the Corporation be issued for less than the minimum lawful consideration for such shares or for consideration other than consideration permitted by applicable state law. Shares of Common Stock used to satisfy the exercise price of an option shall be valued at their fair market value on the date of exercise. The Corporation will not be obligated to deliver any shares unless and until it receives full payment of the exercise or purchase price therefor and any related withholding obligations under Section 8.5 and any other conditions to exercise or purchase have been satisfied. Unless otherwise expressly provided in the applicable award agreement, the Administrator may at any time eliminate or limit a participant’s ability to pay the purchase or exercise price of any award or shares by any method other than cash payment to the Corporation.

5.6 ***Definition of Fair Market Value***. For purposes of this Plan, “fair market value” shall mean, unless otherwise determined or provided by the Administrator in the circumstances, the last price for a share of Common Stock as furnished by the National Association of Securities Dealers, Inc. (the “NASD”) through the NASDAQ National Market Reporting System (the “National Market”) for the date in question or, if no sales of Common Stock were reported by the NASD on the National Market on that date, the last price for a share of Common Stock as furnished by the NASD through the National Market for the next preceding day on which sales of Common Stock were reported by the NASD. The Administrator may, however, provide with respect to one or more awards that the fair market value shall equal the last price for a share of Common Stock as furnished by the NASD through the National Market available on the date in question or the average of the high and low trading prices of a share of Common Stock as furnished by the NASD through the National Market for the date in question or the most recent trading day. If the Common Stock is no longer listed or is no longer actively traded on the National Market as of the applicable date, the fair market value of the Common Stock shall be the value as reasonably determined by the Administrator for purposes of the award in the circumstances. The Administrator also may adopt a different methodology for determining fair market value with respect to one or more awards if a different methodology is necessary or advisable to secure any intended favorable tax, legal or other treatment for the particular award(s) (for example, and without limitation, the Administrator may provide that fair market value for purposes of one or more awards will be based on an average of closing prices (or the average of high and low daily trading prices) for a specified period preceding the relevant date).

5.7 ***Transfer Restrictions***.

5.7.1 ***Limitations on Exercise and Transfer***. Unless otherwise expressly provided in (or pursuant to) this Section 5.7, by applicable law and by the award agreement, as the same may be amended, (a) all awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; (b) awards shall be exercised only by the participant; and (c) amounts payable or shares issuable pursuant to any award shall be delivered only to (or for the account of) the participant.

5.7.2 ***Exceptions***. The Administrator may permit awards to be exercised by and paid to, or otherwise transferred to, other persons or entities pursuant to such conditions and procedures, including limitations on subsequent transfers, as the Administrator may, in its sole discretion, establish in writing. Any permitted transfer shall be subject to compliance with applicable federal and state securities laws.

5.7.3 ***Further Exceptions to Limits on Transfer***. The exercise and transfer restrictions in Section 5.7.1 shall not apply to:

(a) transfers to the Corporation,

(b) the designation of a beneficiary to receive benefits in the event of the participant’s death or, if the participant has died, transfers to or exercise by the participant’s beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution,

(c) subject to any applicable limitations on ISOs, transfers to a family member (or former family member) pursuant to a domestic relations order if approved or ratified by the Administrator,

(d) if the participant has suffered a disability, permitted transfers or exercises on behalf of the participant by his or her legal representative, or

(e) the authorization by the Administrator of "cashless exercise" procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of awards consistent with applicable laws and the express authorization of the Administrator.

5.8 ***International Awards***. One or more awards may be granted to Eligible Persons who provide services to the Corporation or one of its Subsidiaries outside of the United States. Any awards granted to such persons may be granted pursuant to the terms and conditions of any applicable sub-plans, if any, appended to this Plan and approved by the Administrator.

6. EFFECT OF TERMINATION OF SERVICE ON AWARDS

6.1 ***General***. The Administrator shall establish the effect of a termination of employment or service on the rights and benefits under each award under this Plan and in so doing may make distinctions based upon, inter alia, the cause of termination and type of award. If the participant is not an employee of the Corporation or one of its Subsidiaries and provides other services to the Corporation or one of its Subsidiaries, the Administrator shall be the sole judge for purposes of this Plan (unless a contract or the award otherwise provides) of whether the participant continues to render services to the Corporation or one of its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

6.2 ***Events Not Deemed Terminations of Service***. Unless the express policy of the Corporation or one of its Subsidiaries, or the Administrator, otherwise provides, the employment relationship shall not be considered terminated in the case of (a) sick leave, (b) military leave, or (c) any other leave of absence authorized by the Corporation or one of its Subsidiaries, or the Administrator; provided that unless reemployment upon the expiration of such leave is guaranteed by contract or law, such leave is for a period of not more than 90 days. In the case of any employee of the Corporation or one of its Subsidiaries on an approved leave of absence, continued vesting of the award while on leave from the employ of the Corporation or one of its Subsidiaries may be suspended until the employee returns to service, unless the Administrator otherwise provides or applicable law otherwise requires. In no event shall an award be exercised after the expiration of the term set forth in the award agreement.

6.3 ***Effect of Change of Subsidiary Status***. For purposes of this Plan and any award, if an entity ceases to be a Subsidiary of the Corporation a termination of employment or service shall be deemed to have occurred with respect to each Eligible Person in respect of such Subsidiary who does not continue as an Eligible Person in respect of another entity within the Corporation or another Subsidiary that continues as such after giving effect to the transaction or other event giving rise to the change in status.

7. ADJUSTMENTS; ACCELERATION

7.1 ***Adjustments***. Upon or in contemplation of: any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split ("stock split"); any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock (whether in the form of securities or property); any exchange of Common Stock or other securities of the Corporation, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; or a sale of all or substantially all the business or assets of the Corporation as an entirety; then the Administrator shall, in such manner, to such extent (if any) and at such time as it deems appropriate and equitable in the circumstances:

(a) proportionately adjust any or all of (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any or all outstanding awards, (3) the grant, purchase, or exercise price of any or all outstanding awards, (4) the securities, cash or other property deliverable upon exercise or payment of any outstanding awards, or (5) (subject to Sections 7.8 and 8.8.3(a)) the performance standards applicable to any outstanding awards, or

(b) make provision for a cash payment or for the assumption, substitution or exchange of any or all outstanding share-based awards or the cash, securities or property deliverable to the holder of any or all outstanding share-based awards, based upon the distribution or consideration payable to holders of the Common Stock upon or in respect of such event.

The Administrator may adopt such valuation methodologies for outstanding awards as it deems reasonable in the event of a cash or property settlement and, in the case of options, but without limitation on other methodologies, may base such settlement solely upon the excess if any of the per share amount payable upon or in respect of such event over the exercise or base price of the award. With respect to any award of an ISO, the Administrator may make such an adjustment that causes the option to cease to qualify as an ISO without the consent of the affected participant.

In any of such events, the Administrator may take such action prior to such event to the extent that the Administrator deems the action necessary to permit the participant to realize the benefits intended to be conveyed with respect to the underlying shares in the same manner as is or will be available to stockholders generally. In the case of any stock split or reverse stock split, if no action is taken by the Administrator, the proportionate adjustments contemplated by clause (a) above shall nevertheless be made.

7.2 ***Automatic Acceleration of Awards***. Upon a dissolution of the Corporation or other event described in Section 7.1 that the Corporation does not survive (or does not survive as a public company in respect of its Common Stock), then each then-outstanding option shall become fully vested, all shares of restricted stock then outstanding shall fully vest free of restrictions, and each other award granted under this Plan that is then outstanding shall become payable to the holder of such award; provided that such acceleration provision shall not apply, unless otherwise expressly provided by the Administrator, with respect to any award to the extent that the Administrator has made a provision for the substitution, assumption, exchange or other continuation or settlement of the award, or the award would otherwise continue in accordance with its terms, in the circumstances.

7.3 ***Possible Acceleration of Awards***. Without limiting Section 7.2, in the event of a Change in Control Event (as defined below), the Administrator may, in its discretion, provide that any outstanding option shall become fully vested, that any share of restricted stock then outstanding shall fully vest free of restrictions, and that any other award granted under this Plan that is then outstanding shall be payable to the holder of such award. The Administrator may take such action with respect to all awards then outstanding or only with respect to certain specific awards identified by the Administrator in the circumstances. For purposes of this Plan, "**Change in Control Event**" means any of the following:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a "**Person**")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of either (1) the then-outstanding shares of common stock of the Corporation (the "**Outstanding Company Common Stock**") or (2) the combined voting power of the then-outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the "**Outstanding Company Voting Securities**"); provided, however, that, for purposes of this definition, the following acquisitions shall not constitute a Change in Control Event; (A) any acquisition directly from the Corporation, (B) any acquisition by the Corporation, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any affiliate of the Corporation or a successor, or (D) any acquisition by any entity pursuant to a transaction that complies with Sections (c)(1), (2) and (3) below;

(b) Individuals who, as of the Effective Date, constitute the Board (the "**Incumbent Board**") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Corporation's stockholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board (including for these purposes, the new members whose election or nomination was so approved, without counting the member and his predecessor twice) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(c) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Corporation or any of its Subsidiaries, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its Subsidiaries (each, a "**Business Combination**"), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Corporation or all or substantially all of the Corporation's assets directly or through one or more subsidiaries (a "**Parent**")) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any entity resulting from such Business Combination or a Parent or any employee benefit plan (or related trust) of the Corporation or such entity resulting from such Business Combination or Parent) beneficially owns, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of more than 50% existed prior to the Business Combination, and (3) at least a majority of the members of the board of directors or trustees of the entity resulting from such Business Combination or a Parent were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(d) Approval by the stockholders of the Corporation of a complete liquidation or dissolution of the Corporation other than in the context of a transaction that does not constitute a Change in Control Event under clause (c) above.

7.4 ***Early Termination of Awards***. Any award that has been accelerated as required or contemplated by Section 7.2 or 7.3 (or would have been so accelerated but for Section 7.5, 7.6 or 7.7) shall terminate upon the related event referred to in Section 7.2 or 7.3, as applicable, subject to any provision that has been expressly made by the Administrator, through a plan of reorganization or otherwise, for the survival, substitution, assumption, exchange or other continuation or settlement of such award and provided that, in the case of options that will not survive, be substituted for, assumed, exchanged, or otherwise continued or settled in the transaction, the holder of such award shall be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise his or her outstanding options in accordance with their terms before the termination of such awards (except that in no case shall more than ten days' notice of accelerated vesting and the impending termination be required and any acceleration may be made contingent upon the actual occurrence of the event).

7.5 ***Other Acceleration Rules***. Any acceleration of awards pursuant to this Section 7 shall comply with applicable legal requirements and, if necessary to accomplish the purposes of the acceleration or if the circumstances require, may be deemed by the Administrator to occur a limited period of time not greater than 30 days before the event. Without limiting the generality of the foregoing, the Administrator may deem an acceleration to occur immediately prior to the applicable event and/or reinstate the original terms of an award if an event giving rise to an acceleration does not occur. The Administrator may override the provisions of Section 7.2, 7.3, 7.4 and/or 7.6 by express provision in the award agreement and may accord any Eligible Person a right to refuse any acceleration, whether pursuant to the award agreement or otherwise, in such circumstances as the Administrator may approve. The portion of any ISO accelerated in connection with a Change in Control Event or any other action permitted hereunder shall remain exercisable as an ISO only to the extent the applicable $100,000 limitation on ISOs is not exceeded. To the extent exceeded, the accelerated portion of the option shall be exercisable as a nonqualified stock option under the Code.

7.6 ***Possible Rescission of Acceleration***. If the vesting of an award has been accelerated expressly in anticipation of an event or upon stockholder approval of an event and the Administrator later determines that the event will not occur, the Administrator may rescind the effect of the acceleration as to any then outstanding and unexercised or otherwise unvested awards.

7.7 ***Golden Parachute Limitation***. Notwithstanding anything else contained in this Section 7 to the contrary, in no event shall any award or payment be accelerated under this Plan to an extent or in a manner so that such award or payment, together with any other compensation and benefits provided to, or for the benefit of, the participant under any other plan or agreement of the Corporation or any of its Subsidiaries, would not be fully deductible by the Corporation or one of its Subsidiaries for federal income tax purposes because of Section 280G of the Code. If a participant would be entitled to benefits or payments hereunder and under any other plan or program that would constitute "parachute payments" as defined in Section 280G of the Code, then the participant may by written notice to the Corporation designate the order in which such parachute payments will be reduced or modified so that the Corporation or one of its Subsidiaries is not denied federal income tax deductions for any "parachute payments" because of Section 280G of the Code. Notwithstanding the foregoing, if a participant is a party to an employment or other agreement with the Corporation or one of its Subsidiaries, or is a participant in a severance program sponsored by the Corporation or one of its Subsidiaries, that contains express provisions regarding Section 280G and/or Section 4999 of the Code (or any similar successor provision), or the applicable award agreement includes such provisions, the Section 280G and/or Section 4999 provisions of such employment or other agreement or plan, as applicable, shall control as to the awards held by that participant (for example, and without limitation, a participant may be a party to an employment agreement with the Corporation or one of its Subsidiaries that provides for a "gross-up" as opposed to a "cut-back" in the event that the Section 280G thresholds are reached or exceeded in connection with a change in control and, in such event, the Section 280G and/or Section 4999 provisions of such employment agreement shall control as to any awards held by that participant).

8. OTHER PROVISIONS

8.1 ***Compliance with Laws***. This Plan, the granting and vesting of awards under this Plan, the offer, issuance and delivery of shares of Common Stock and/or the payment of money under this Plan or under awards are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities law, federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the

Corporation, be necessary or advisable in connection therewith. The person acquiring any securities under this Plan will, if requested by the Corporation or one of its Subsidiaries, provide such assurances and representations to the Corporation or one of its Subsidiaries as the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements.

8.2 ***Employment Status***. No person shall have any claim or rights to be granted an award (or additional awards, as the case may be) under this Plan, subject to any express contractual rights (set forth in a document other than this Plan) to the contrary.

8.3 ***No Employment/Service Contract***. Nothing contained in this Plan (or in any other documents under this Plan or in any award) shall confer upon any Eligible Person or other participant any right to continue in the employ or other service of the Corporation or one of its Subsidiaries, constitute any contract or agreement of employment or other service or affect an employee’s status as an employee at will, nor shall interfere in any way with the right of the Corporation or one of its Subsidiaries to change a person’s compensation or other benefits, or to terminate his or her employment or other service, with or without cause. Nothing in this Section 8.3, however, is intended to adversely affect any express independent right of such person under a separate employment or service contract other than an award agreement.

8.4 ***Plan Not Funded***. Awards payable under this Plan shall be payable in shares or from the general assets of the Corporation, and no special or separate reserve, fund or deposit shall be made to assure payment of such awards. No participant, beneficiary or other person shall have any right, title or interest in any fund or in any specific asset (including shares of Common Stock, except as expressly otherwise provided) of the Corporation or one of its Subsidiaries by reason of any award hereunder. Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Corporation or one of its Subsidiaries and any participant, beneficiary or other person. To the extent that a participant, beneficiary or other person acquires a right to receive payment pursuant to any award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Corporation.

8.5 ***Tax Withholding***. Upon any exercise, vesting, or payment of any award or upon the disposition of shares of Common Stock acquired pursuant to the exercise of an ISO prior to satisfaction of the holding period requirements of Section 422 of the Code, the Corporation or one of its Subsidiaries shall have the right at its option to:

(a) require the participant (or the participant’s personal representative or beneficiary, as the case may be) to pay or provide for payment of at least the minimum amount of any taxes which the Corporation or one of its Subsidiaries may be required to withhold with respect to such award event or payment; or

(b) deduct from any amount otherwise payable in cash to the participant (or the participant’s personal representative or beneficiary, as the case may be) the minimum amount of any taxes which the Corporation or one of its Subsidiaries may be required to withhold with respect to such cash payment.

In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Plan, the Administrator may in its sole discretion (subject to Section 8.1) require or grant (either at the time of the award or thereafter) to the participant the right to elect, pursuant to such rules and subject to such conditions as the Administrator may establish, to have the Corporation reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of shares, valued in a consistent manner at their fair market value or at the sales price in accordance with authorized procedures for cashless exercises, necessary to satisfy the minimum applicable withholding obligation on exercise, vesting or payment. In no event shall the shares withheld exceed the minimum whole number of shares required for tax withholding under applicable law.

8.6 ***Effective Date, Termination and Suspension, Amendments***.

8.6.1 ***Effective Date***. This Plan is effective as of September 3, 2004, the date of its approval by the Board (the "**Effective Date**"). This Plan shall be submitted for and subject to stockholder approval no later than twelve months after the Effective Date. Unless earlier terminated by the Board, this Plan shall terminate at the close of business on the day before the tenth anniversary of the Effective Date. After the termination of this Plan either upon such stated expiration date or its earlier termination by the Board, no additional awards may be granted under this Plan, but previously granted awards (and the authority of the Administrator with respect thereto, including the authority to amend such awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of this Plan.

8.6.2 ***Board Authorization***. The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. No awards may be granted during any period that the Board suspends this Plan.

8.6.3 ***Stockholder Approval***. To the extent then required by applicable law or any applicable listing agency or required under Sections 162, 422 or 424 of the Code to preserve the intended tax consequences of this Plan, or deemed necessary or advisable by the Board, any amendment to this Plan shall be subject to stockholder approval.

8.6.4 ***Amendments to Awards***. Without limiting any other express authority of the Administrator under (but subject to) the express limits of this Plan, the Administrator by agreement or resolution may waive conditions of or limitations on awards to participants that the Administrator in the prior exercise of its discretion has imposed, without the consent of a participant, and (subject to the requirements of Sections 3.2 and 8.6.5) may make other changes to the terms and conditions of awards. Any amendment or other action that would constitute a repricing of an award is subject to the limitations set forth in Section 3.2(g).

8.6.5 ***Limitations on Amendments to Plan and Awards***. No amendment, suspension or termination of this Plan or change of or affecting any outstanding award shall, without written consent of the participant, affect in any manner materially adverse to the participant any rights or benefits of the participant or obligations of the Corporation under any award granted under this Plan prior to the effective date of such change. Changes, settlements and other actions contemplated by Section 7 shall not be deemed to constitute changes or amendments for purposes of this Section 8.6.

8.7 ***Privileges of Stock Ownership***. Except as otherwise expressly authorized by the Administrator or this Plan, a participant shall not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by the participant. No adjustment will be made for dividends or other rights as a stockholder for which a record date is prior to such date of delivery.

8.8 ***Governing Law; Construction; Severability***.

8.8.1 ***Choice of Law***. This Plan, the awards, all documents evidencing awards and all other related documents shall be governed by, and construed in accordance with the laws of the State of Delaware.

8.8.2 ***Severability***. If a court of competent jurisdiction holds any provision invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

8.8.3 ***Plan Construction***.

(a) *Rule 16b-3*. It is the intent of the Corporation that the awards and transactions permitted by awards be interpreted in a manner that, in the case of participants who are or may be subject to Section 16 of the Exchange Act, qualify, to the maximum extent compatible with the express terms of the award, for exemption from matching liability under Rule 16b-3 promulgated under the Exchange Act. Notwithstanding the foregoing, the Corporation shall have no liability to any participant for Section 16 consequences of awards or events under awards if an award or event does not so qualify.

(b) *Section 162(m)*. Awards under Section 5.1.4 to persons described in Section 5.2 that are either granted or become vested, exercisable or payable based on attainment of one or more performance goals related to the Business Criteria, as well as Qualifying Options granted to persons described in Section 5.2, that are approved by a committee composed solely of two or more outside directors (as this requirement is applied under Section 162(m) of the Code) shall be deemed to be intended as performance-based compensation within the meaning of Section 162(m) of the Code unless such committee provides otherwise at the time of grant of the award. It is the further intent of the Corporation that (to the extent the Corporation or one of its Subsidiaries or awards under this Plan may be or become subject to limitations on deductibility under Section 162(m) of the Code) any such awards and any other Performance-Based Awards under Section 5.2 that are granted to or held by a person subject to Section 162(m) will qualify as performance-based compensation or otherwise be exempt from deductibility limitations under Section 162(m).

8.9 ***Captions***. Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

8.10 ***Stock-Based Awards in Substitution for Stock Options or Awards Granted by Other Corporation***. Awards may be granted to Eligible Persons in substitution for or in connection with an assumption of employee stock options, stock appreciation rights, restricted stock or other stock-based awards granted by other entities to persons who are or who will become Eligible Persons in respect of the Corporation or one of its Subsidiaries, in connection with a distribution, merger or other reorganization by or with the granting entity or an affiliated entity, or the acquisition by the Corporation or one of its Subsidiaries, directly or indirectly, of all or a substantial part of the stock or assets of the employing entity. The awards so granted need not comply with other specific terms of this Plan, provided the awards reflect only adjustments giving effect to the assumption or substitution consistent with the conversion applicable to the Common Stock in the transaction and any change in the issuer of the security. Any shares that are delivered and any awards that are granted by, or become obligations of, the Corporation, as a result of the assumption by the Corporation of, or in substitution for, outstanding awards previously granted by an acquired company (or previously granted by a predecessor employer (or direct or indirect parent thereof) in the case of persons that become employed by the Corporation or one of its Subsidiaries in connection with a business or asset acquisition or similar transaction) shall not be counted against the Share Limit or other limits on the number of shares available for issuance under this Plan.

8.11 ***Non-Exclusivity of Plan***. Nothing in this Plan shall limit or be deemed to limit the authority of the Board or the Administrator to grant awards or authorize any other compensation, with or without reference to the Common Stock, under any other plan or authority.

8.12 ***No Corporate Action Restriction***. The existence of this Plan, the award agreements and the awards granted hereunder shall not limit, affect or restrict in any way the right or power of the Board or the stockholders of the Corporation to make or authorize: (a) any adjustment, recapitalization, reorganization or other change in the capital structure or business of the Corporation or any Subsidiary, (b) any merger, amalgamation, consolidation or change in the ownership of the Corporation or any Subsidiary, (c) any issue of bonds, debentures, capital, preferred or prior preference stock ahead of or affecting the capital stock (or the rights thereof) of the Corporation or any Subsidiary, (d) any dissolution or liquidation of the Corporation or any Subsidiary, (e) any sale or transfer of all or any part of the assets or business of the Corporation or any Subsidiary, or (f) any other corporate act or proceeding by the Corporation or any Subsidiary. No participant, beneficiary or any other person shall have any claim under any award or award agreement against any member of the Board or the Administrator, or the Corporation or any employees, officers or agents of the Corporation or any Subsidiary, as a result of any such action.

8.13 ***Other Company Benefit and Compensation Programs***. Payments and other benefits received by a participant under an award made pursuant to this Plan shall not be deemed a part of a participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Corporation or any Subsidiary, except where the Administrator expressly otherwise provides or authorizes in writing. Awards under this Plan may be made in addition to, in combination with, as alternatives to or in payment of grants, awards or commitments under any other plans or arrangements of the Corporation or its Subsidiaries.

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 4, 2007

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 4, 2007

/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 November 30, 2006 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; as amended; and

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

Dated: January 4, 2007

/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.