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, 2003

OR

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

For the transition period from ______ to ______

Commission File Number: 0-32113

RESOURCES CONNECTION, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**33-0832424**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

695 TOWN CENTER DRIVE, SUITE 600, COSTA MESA, CALIFORNIA 92626
(Address of Principal Executive Offices and Zip Code)

(714) 430-6400
(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

As of January 8, 2004, 22,716,721 shares of the registrant’s common stock, $0.01 par value per share, were outstanding.

RESOURCES CONNECTION, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RESOURCES CONNECTION, INC.

CONSOLIDATED BALANCE SHEETS

	November 30, 2003	May 31, 2003
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,952,000	$ 48,078,000
Trade accounts receivable, net of allowance for doubtful accounts of $3,163,000 and $2,388,000 as of November 30, 2003 and May 31, 2003, respectively	42,543,000	26,635,000
Prepaid expenses and other current assets	2,172,000	2,035,000
Prepaid income taxes	—	1,774,000
Deferred income taxes	2,596,000	2,596,000
Total current assets	78,263,000	81,118,000
Investments in marketable securities	15,000,000	20,000,000
Intangible assets, net	80,334,000	49,079,000
Property and equipment, net	4,969,000	4,341,000
Other assets	796,000	1,399,000
Total assets	$ 179,362,000	$ 155,937,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 13,356,000	$ 2,784,000
Accrued salaries and related obligations	15,984,000	17,899,000
Other liabilities	2,312,000	258,000
Total current liabilities	31,652,000	20,941,000
Deferred income taxes	1,465,000	1,465,000
Total liabilities	33,117,000	22,406,000
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 5,000,000 shares authorized; zero shares issued and outstanding		
Common stock, $0.01 par value, 35,000,000 shares authorized; 22,676,000 and 22,251,000 shares issued and outstanding as of November 30, 2003 and May 31, 2003, respectively	227,000	222,000
Additional paid-in capital	91,438,000	86,676,000
Deferred stock compensation	(326,000)	(480,000)
Accumulated other comprehensive gain	515,000	293,000
Notes receivable from stockholders	—	(55,000)
Retained earnings	54,694,000	46,876,000
Treasury stock at cost, 154,000 and 141,000 shares at November 30, 2003 and May 31, 2003, respectively	(303,000)	(1,000)
Total stockholders' equity	146,245,000	133,531,000
Total liabilities and stockholders' equity	$ 179,362,000	$ 155,937,000

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	November 30, 2003	November 30, 2002	November 30, 2003	November 30, 2002
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	$ 74,016,000	$ 50,209,000	$ 133,557,000	$ 93,737,000
Direct cost of services, primarily payroll and related taxes for professional services employees	45,420,000	29,909,000	81,475,000	56,210,000
Gross profit	28,596,000	20,300,000	52,082,000	37,527,000
Selling, general and administrative expenses	20,471,000	14,526,000	37,700,000	27,544,000
Amortization of intangible assets	392,000	126,000	698,000	157,000
Depreciation expense	433,000	312,000	820,000	627,000
Income from operations	7,300,000	5,336,000	12,864,000	9,199,000
Interest income	(103,000)	(270,000)	(275,000)	(608,000)
Income before provision for income taxes	7,403,000	5,606,000	13,139,000	9,807,000
Provision for income taxes	2,998,000	2,298,000	5,321,000	4,020,000
Net income	$ 4,405,000	$ 3,308,000	$ 7,818,000	$ 5,787,000
Net income per common share:				
Basic	$ 0.20	$ 0.15	$ 0.35	$ 0.27
Diluted	$ 0.19	$ 0.15	$ 0.33	$ 0.25
Weighted average common shares outstanding:				
Basic	22,475,000	21,743,000	22,446,000	21,679,000
Diluted	23,622,000	22,651,000	23,618,000	22,728,000

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY

	Six Months Ended	
	November 30, 2003	November 30, 2002
	(unaudited)	(unaudited)
COMMON STOCK—SHARES:		
Balance at beginning of period	22,251,000	21,661,000
Exercise of stock options	389,000	135,000
Issuance of common stock for the acquistion of The Procurement Centre	—	116,000
Issuance of common stock under Employee Stock Purchase Plan	36,000	44,000
Balance at end of period	22,676,000	21,956,000
COMMON STOCK—PAR VALUE:		
Balance at beginning of period	$ 222,000	$ 216,000
Exercise of stock options	5,000	2,000
Issuance of common stock for the acquistion of The Procurement Centre	—	1,000
Issuance of common stock under Employee Stock Purchase Plan	—	1,000
Balance at end of period	$ 227,000	$ 220,000
ADDITIONAL PAID-IN CAPITAL:		
Balance at beginning of period	$ 86,676,000	$ 79,991,000
Exercise of stock options	4,056,000	633,000
Issuance of common stock for the acquistion of The Procurement Centre	—	1,503,000
Issuance of common stock under Employee Stock Purchase Plan	706,000	980,000
Forfeiture of restricted stock and stock options	—	(112,000)
Balance at end of period	$ 91,438,000	$ 82,995,000
DEFERRED STOCK COMPENSATION:		
Balance at beginning of period	$ (480,000)	$ (909,000)
Forfeiture of restricted stock and stock options	—	112,000
Amortization of deferred stock compensation	154,000	162,000
Balance at end of period	$ (326,000)	$ (635,000)
ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS):		
Balance at beginning of period	$ 293,000	$ (51,000)
Translation adjustments	222,000	54,000
Balance at end of period	$ 515,000	$ 3,000
NOTES RECEIVABLE FROM STOCKHOLDERS:		
Balance at beginning of period	$ (55,000)	$ (109,000)
Repayment of notes receivable	55,000	54,000
Balance at end of period	$ —	$ (55,000)
RETAINED EARNINGS:		
Balance at beginning of period	$ 46,876,000	$ 34,334,000
Net income	7,818,000	5,787,000
Balance at end of period	$ 54,694,000	$ 40,121,000
TREASURY STOCK—SHARES:		
Balance at beginning of period	(141,000)	(101,000)
Repurchase of shares	(13,000)	(21,000)
Balance at end of period	(154,000)	(122,000)
TREASURY STOCK—COST:		
Balance at beginning of period	$ (1,000)	$ (1,000)
Repurchase of shares	(302,000)	—
Balance at end of period	$ (303,000)	$ (1,000)

COMPREHENSIVE INCOME:		
Net income	$ 7,818,000	$ 5,787,000
Translation adjustments	222,000	54,000
Total comprehensive income	$ 8,040,000	$ 5,841,000

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	November 30, 2003	November 30, 2002
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income	$ 7,818,000	$ 5,787,000
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	1,518,000	784,000
Amortization of deferred stock compensation	154,000	162,000
Bad debt expense	456,000	626,000
Changes in operating assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	(7,619,000)	(2,786,000)
Prepaid expenses and other current assets	119,000	536,000
Prepaid income taxes	3,763,000	2,717,000
Other assets	878,000	(16,000)
Accounts payable and accrued expenses	(697,000)	76,000
Accrued salaries and related obligations	(1,915,000)	(1,243,000)
Other liabilities	82,000	(24,000)
Net cash provided by operating activities	4,557,000	6,619,000
Cash flows from investing activities:		
Redemption of marketable securities	20,000,000	18,000,000
Purchase of marketable securities	(15,000,000)	(6,000,000)
Purchase of Executive Temporary Management BV, net of cash acquired and including transaction costs	(27,643,000)	—
Purchase of policyIQ, including transaction costs	(2,056,000)	—
Purchase of Deloitte Re:sources Pty, including transaction costs	(1,078,000)	—
Purchase of The Procurement Centre, net of cash acquired and including transaction costs	—	(7,562,000)
Purchases of property and equipment	(453,000)	(343,000)
Net cash (used in) provided by investing activities	(26,230,000)	4,095,000
Cash flows from financing activities:		
Proceeds from exercise of stock options	4,061,000	635,000
Proceeds from issuance of common stock under Employee Stock Purchase Plan	706,000	981,000
Repurchase of treasury stock	(302,000)	—
Repayment of notes receivable from stockholders	55,000	54,000
Net cash provided by financing activities	4,520,000	1,670,000
Effect of exchange rate changes on cash	27,000	—
Net (decrease) increase in cash	(17,126,000)	12,384,000
Cash and cash equivalents at beginning of period	48,078,000	31,745,000
Cash and cash equivalents at end of period	$ 30,952,000	$ 44,129,000

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, 2003 and 2002

1. Description of the Company and its Business

Resources Connection, Inc. (“Resources Connection”), was incorporated on November 16, 1998. Resources Connection provides professional services to a variety of industries and enterprises through its subsidiaries, Resources Connection LLC (“LLC”), RECN of Texas, LP (“Texas”), Resources Audit Solutions, LLC (“RAS”), RECN Procurement Centre LP (“TPC”) and foreign subsidiaries (collectively the “Company”). Prior to its acquisition of LLC on April 1, 1999, Resources Connection had no substantial operations. LLC, which commenced operations in June 1996, and Texas, which was formed in May 2002, and the various foreign subsidiaries, provide clients with experienced professionals who specialize in accounting, finance, information technology and human resources on a project basis. RAS commenced business formally in June 2002 and assists its clients with their internal audit and risk assessment needs on a project or co-sourced basis. TPC is a provider of supply chain management services to companies on a project basis. The Company has offices in the United States, Australia, Canada, Hong Kong, the Netherlands, Taiwan and the United Kingdom. Resources Connection is a Delaware corporation. LLC and RAS are Delaware limited liability companies. Texas and TPC are limited partnerships formed in Texas.

The employees of Resources Consulting Group, LP, (“RCG”) left Resources Connection in October 2003 to work for another employer. The services provided by RCG, with primary focus on executive compensation consulting, will continue to be provided by the other operating units of the Company. No material impact on operations is expected from this change.

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 2004 and 2003, each consisting of 13 weeks, were November 29, 2003 and November 23, 2002, 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 for the three months and six months ended November 30, 2003 and 2002 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial position at such dates and the operating results and cash flows for those periods. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules or regulations; however, the Company believes the disclosures made are adequate to make the information presented not misleading.

The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for the fiscal year. These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended May 31, 2003, which are included in the Company’s Annual Report on Form 10-K for the year then ended (File No. 0-32113).

Investments in Marketable Securities

The Company accounts for its marketable securities in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, “Accounting for Certain Investments in Debt and Equity Securities”. Accordingly, securities that the Company has the ability and positive intent to hold to maturity are carried at amortized cost. Cost approximates market for these securities. All held-to-maturity securities have remaining maturity dates greater than one year. To secure a slightly higher interest rate on its investment in government bonds, the $15 million in investments classified as long-term as of November 30, 2003 are callable at the discretion of the issuer although their stated maturity dates are greater than one year from the balance sheet date.

Stock-based Compensation

On December 31, 2002, the FASB issued SFAS No. 148, “Accounting for Stock Based Compensation Transition and Disclosure,” which amends SFAS No. 123. SFAS No. 148 requires more prominent and frequent disclosures about the effects of stock-based compensation, which the Company has adopted as of our year ended May 31, 2003. We will continue to account for our stock-based compensation according to the provisions of APB Opinion No. 25.

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

	Three months ended November 30,		Six months ended November 30,	
	2003	2002	2003	2002
Net income, as reported	$4,405,000	$3,308,000	$7,818,000	$5,787,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,375,000	1,846,000	2,705,000	3,734,000
Pro forma net income	$3,030,000	$1,462,000	$5,113,000	$2,053,000
Net income per share:				
Basic-as reported	$ 0.20	$ 0.15	$ 0.35	$ 0.27
Basic-pro forma	$ 0.13	$ 0.07	$ 0.23	$ 0.09
Diluted-as reported	$ 0.19	$ 0.15	$ 0.33	$ 0.25
Diluted-pro forma	$ 0.13	$ 0.07	$ 0.22	$ 0.09

Use of Estimates

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

3. Net Income Per Share

The Company follows SFAS No. 128, “Earnings Per Share,” which establishes standards for the computation, presentation and disclosure requirements for basic and diluted earnings per share for entities with publicly held common shares and potential common shares. Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding. In computing diluted earnings per share, the weighted average number of shares outstanding is adjusted to reflect the effect of potentially dilutive securities, consisting solely of stock options.

Potential common shares totaling 681,000 and 1,906,000 were not included in the diluted earnings per share amounts for the three months ended November 30, 2003 and 2002, respectively, as their effect would have been anti-dilutive. For the three months ended November 30, 2003 and 2002, potentially dilutive securities consisted solely of stock options and resulted in potential common shares of 1,147,000 and 908,000, respectively.

Potential common shares totaling 807,000 and 1,652,000 were not included in the diluted earnings per share amounts for the six months ended November 30, 2003 and 2002, respectively, as their effect would have been anti-dilutive. For the six months ended November 30, 2003 and 2002, potentially dilutive securities consisted solely of stock options and resulted in potential common shares of 1,172,000 and 1,049,000, respectively.

4. Acquisitions

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

- On July 15, 2003, the Company acquired the outstanding capital shares of Ernst & Young’s subsidiary, Executive Temporary Management BV in the Netherlands for $29.4 million. The Company completed the acquisition to provide a foundation in continental Europe and believes the acquisition will allow it to market to current and prospective multinational clients with significant international operations. This operation has been renamed Resources Connection.NL BV (“RC.NL”).
- On June 1, 2003, the Company acquired the operations of Deloitte Re:sources Pty Ltd. operating in Australia from Deloitte Touche Tohmatsu for $1 million. This operation has been renamed Resources Connection Australia Ltd..
- On July 30, 2003, the Company acquired policyIQ^{TM}, a web-based solution for internal controls documentation and content management.

In accordance with SFAS No. 141, the Company allocated the purchase price based on the fair value of the assets acquired and liabilities assumed and engaged an independent appraiser to assist in valuing the acquired intangible assets of the three entities. The excess of the purchase price over the net tangible assets acquired will be allocated to goodwill and amortizable intangible assets based on management’s estimates until final allocations are completed. During the second quarter of fiscal 2004, the Company recognized an estimate of amortization expense of $235,000. However, the final allocations, expected to be completed during the Company’s third quarter, could be different from the preliminary purchase price allocation and may result in the identification of additional amortizable intangible assets.

During the three months ended November 30, 2003, additional acquisition costs incurred resulted in an increase to goodwill in the amount of approximately $900,000.

The following table presents revenue, net income and diluted earnings per share for the six months ended November 30, 2003 and 2002 as if the acquisition of RC.NL had occurred on June 1, 2003 and 2002, respectively:

	Resources Connection, Inc.	RC.NL	Pro Forma Adjustments	
	Six Months Ended November 30, 2003	Pre-Acquisition Results	Increase (Decrease)	Pro Forma Combined
Revenue	$ 133,557,000	$ 5,233,000	$ —	$ 138,790,000
Net income	$ 7,818,000	$ (53,000)	($ 70,000)	$ 7,695,000
Diluted earnings per share	$ 0.33			$ 0.33

	Resources Connection, Inc.	RC.NL	Pro Forma Adjustments	
	Six Months Ended November 30, 2002	Six Months Ended December 31, 2002	Increase (Decrease)	Pro Forma Combined
Revenue	$ 93,737,000	$ 26,999,000	$ —	$ 120,736,000
Net income	$ 5,787,000	$ 183,000	($ 344,000)	$ 5,626,000
Diluted earnings per share	$ 0.25			$ 0.25

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

5. 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 accounting policies for each of the reportable segments are the same as those described in Note 1 of the Company’s Annual Report on Form 10-K. Summarized financial information regarding the Company’s domestic and international operations is shown in the following table for the three months and six months ended November 30, 2003. Amounts for the three months and six months ended November 30, 2002 were not material.

	Revenue for the three months ended November 30, 2003	Revenue for the six months ended November 30, 2003	Long-Lived Assets as of November 30, 2003(1)
United States	$ 58,881,000	$ 110,455,000	$3,553,000
The Netherlands	12,215,000	17,178,000	1,010,000
Other	2,920,000	5,924,000	406,000
Total	$ 74,016,000	$ 133,557,000	$4,969,000

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

6. Recent Accounting Pronouncements

On December 23, 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106, and a revision of FASB Statement No. 132 ("FAS 132 (revised 2003)")". This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. The required information should be provided separately for pension plans and for other postretirement benefit plans. The new disclosures are generally effective for 2003 calendar year-end financial statements of public companies, with a delayed effective date for certain disclosures and for foreign plans. The Company is currently evaluating the effect of this pronouncement on its financial statement disclosures.

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes. This discussion and analysis contains "forward-looking statements", within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to expectations concerning matters that are not historical facts. Such forward-looking statements may be identified by words such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should," or "will" or the negative of these terms or other comparable terminology. These statements, and all phases of our operations, are subject to known and unknown risks, uncertainties and other factors, some of which are identified herein and in our report on Form 10-K for the year ended May 31, 2003 (File No. 0-32113). Readers are cautioned not to place undue reliance on these forward-looking statements. Our actual results, levels of activity, performance or achievements and those of our industry may be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. We undertake no obligation to update the forward-looking statements in this filing. References in this filing to "Resources Connection", the "Company," "we," "us," and "our" refer to Resources Connection, Inc. and its subsidiaries.

Overview

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

We began operations in June 1996 as a division of Deloitte & Touche and operated as a wholly owned subsidiary of Deloitte & Touche from January 1997 until April 1999. In November 1998, our management formed RC Transaction Corp., renamed Resources Connection, Inc., to raise capital for an intended management-led buyout. In April 1999, we completed the management-led buyout in partnership with, among others, an investor, Evercore Partners, Inc. In December 2000, we completed our initial public offering of common stock and began trading on the Nasdaq National Market.

Growth in revenue through fiscal 2003 has generally been the result of establishing offices in major markets. We established nine offices during fiscal 1997, our initial fiscal year, all in the Western United States. In fiscal 1998, we established nine additional offices, which extended our geographic reach to the Midwest and Eastern United States. For the year ended May 31, 1999, we opened ten more offices and established a new service line in information technology. In fiscal 2000, we established four more domestic offices, established a new service line in human resources management and also began operations in Toronto, Canada; Taipei, Taiwan; and Hong Kong, People’s Republic of China. In fiscal 2001, we established nine additional domestic offices. In fiscal 2002, we began operations in London, England and opened two more domestic offices. The information technology and human resources management service lines have been introduced in a limited number of our offices.

During fiscal 2003, we commenced operations for Resources Audit Solutions, LLC (“RAS”), an entity focused primarily on providing internal audit services and we acquired The Procurement Centre, LLC (“TPC”), a Texas based provider of supply chain management services to companies on a project basis. In addition to TPC’s office in Houston, Texas, we opened six offices domestically during fiscal 2003 and an office in Birmingham, England.

During fiscal 2003, we also started a practice named Resources Consulting Group, LP (“RCG”). This entity focused on expanding our executive compensation consulting practice. In October 2003, the employees of RCG left Resources Connection to work for another employer. The services provided by RCG will continue to be provided by the other operating units of Resources Connection. No material impact on operations is expected from this change.

In the first quarter of fiscal 2004, we completed three transactions to enhance our international presence as well as our ability to assist clients with the compliance efforts under Sarbanes. The largest of the three transactions was the all cash acquisition for $29.4 million of the outstanding capital shares of Ernst & Young’s subsidiary, Executive Temporary Management BV (“ETM”) in the Netherlands on July 15, 2003. ETM, renamed Resources Connection.NL (“RC.NL”), is considered a market leader in the interim management industry in the Netherlands. We believe this acquisition will provide a foundation in continental Europe and will allow us to market to our current and prospective multinational clients seeking an alternative to the Big Four firms, particularly in light of concerns about auditor independence. RC.NL has seven offices in the Netherlands and contracted with, or employed, over 260 professional service associates on assignment as of November 30, 2003.

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

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

As of November 30, 2003, we served our clients through 52 offices in the United States and 14 offices abroad.

Critical Accounting Policies

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

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

> *Valuation of long-lived assets*—We assess the potential impairment of long-lived tangible and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Under the new accounting standard effective June 1, 2001, our goodwill and certain other intangible assets are no longer subject to periodic amortization over their estimated useful lives. These assets are now considered to have an indefinite life and their carrying values are required to be assessed by us for impairment at least annually. Depending on future market values, our operating performance and other factors, these assessments could potentially result in impairment reductions of these intangible assets in the future.
>
> *Allowance for doubtful accounts*—We maintain an allowance for doubtful accounts for estimated losses resulting from the failure of our clients to make required payments for services rendered. We estimate this allowance based upon our knowledge of the financial condition of our clients, review of historical receivable and reserve trends and other pertinent information. If the financial condition of our clients deteriorates or we note an unfavorable trend in aggregate receivable collections, additional allowances may be required.
>
> *Income taxes*—In order to prepare our consolidated financial statements, we are required to make estimates of income taxes, if applicable, in each jurisdiction in which we operate. The process incorporates an assessment of any current tax exposure together with temporary differences resulting from different treatment of transactions for tax and financial statement purposes. These differences result in deferred tax assets and liabilities that are included in our Consolidated Balance Sheets. The recovery of deferred tax assets from future taxable income must be assessed and, to the extent recovery is not likely, we will establish a valuation allowance. An increase in the valuation allowance results in recording additional tax expense. If the ultimate tax liability differs from the amount of tax expense we have reflected in the Consolidated Statements of Income, additional tax expense may need to be recorded.

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

Three Months Ended November 30, 2003 Compared to Three Months Ended November 30, 2002

The comments discussed below for the three months ended November 30, 2003 include the results of operations for a full quarter for TPC, Resources Connection Australia Pty Ltd, RC.NL and policyIQ. The acquisitions in the first quarter of fiscal 2004 are referred to in the comments below as "the acquisitions". Finally, the results of operations for the three months ended November 30, 2002 include operating results of TPC from October 11, 2002 onward.

Revenue. Revenue increased $23.8 million, or 47.4%, to $74.0 million for the three months ended November 30, 2003 from $50.2 million for the three months ended November 30, 2002. The acquisitions contributed $13.1 million to the growth in revenues. Without the additional revenue from the acquisitions, revenues increased 21.2%. This increase was triggered by the continued expansion of our scope of services, resulting in more billable hours for our associates and an improvement in rate per hour. We believe our services expanded in finance and accounting, information technology and internal audit engagements by increasing market awareness of our ability to provide those types of services. Overall bill rates improved by 10.0% compared to the prior year average bill rate. The increase in revenue is also reflected by the increase in the number of associates on assignment from 1,221 at the end of the second quarter of fiscal 2003 to 1,665 at the end of the second quarter of fiscal 2004 (including 286 associates working for the Australia and Netherlands practices as of November 30, 2003).

We operated 66 offices during the second quarter of fiscal 2004 compared with 52 offices during the second quarter of the previous fiscal year. Nine of the additional offices operated in the second quarter of fiscal 2004 were from acquisitions. We opened one new domestic office during the current quarter and four in last year’s second fiscal quarter.

Direct Cost of Services. Direct cost of services increased $15.5 million, or 51.9%, to $45.4 million for the three months ended November 30, 2003 from $29.9 million for the three months ended November 30, 2002. The increase in direct cost of services was attributable to the previously described expansion of the scope of services resulting in more chargeable hours for our associates at higher average pay rates as well as the full quarter of results of the acquisitions included in the second quarter of fiscal 2004; overall, the average pay rate per hour increased by 14.9% year-over-year. The direct cost of services as a percentage of revenue increased from 59.6% for the three months ended November 30, 2002 to 61.4% for the three months ended November 30, 2003. Among the factors contributing to this increase were: 1) the increase in volume of zero margin client expense reimbursements as the Company’s projects requiring associate travel increased significantly; 2) the decrease in conversion fees in the current year compared to the prior year; 3) the greater impact of the international operations with a higher direct cost of services percentage; and 4) the incremental increase in pay rate per hour compared to bill rate per hour.

Historically, 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. Thus, the direct cost of services percentage of our international offices has usually exceeded our domestic operation’s targeted direct cost of services percentage of 60%.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $5.9 million, or 40.9%, to $20.5 million for the three months ended November 30, 2003 from $14.5 million for the three months ended November 30, 2002. This increase was primarily attributable to the acquisitions. In particular, compensation and related benefit expenses increased as management and administrative headcount grew from 328 at the end of the second quarter of fiscal 2003 to 436 at the end of the second quarter of fiscal 2004. Without the acquisitions, management and administrative headcount was 340. Not including the impact of the acquisitions on headcount, the five additional offices opened since the second quarter of 2003 triggered the increase in headcount. The increase in dollars spent was also attributable to an increase in occupancy and related costs from the addition of new offices (apart from the acquisitions), an increase in marketing and advertising expenses related to the Netherlands practice and an increase in bonus expense from the Company’s improved revenue results. However, selling, general and administrative expenses decreased as a percentage of revenue from 28.9% for the three months ended November 30, 2002 to 27.7% for the three months ended November 30, 2003.

Amortization and Depreciation Expense. Amortization of intangible assets increased to $392,000 in the second quarter of fiscal 2004 compared to $126,000 in the prior year’s second quarter. In the current quarter, the Company estimated $235,000 as the amortization related to amortizable intangible assets from the acquisitions. However, preliminary purchase price allocations, completed after the conclusion of the second quarter, indicate that the actual amortization expense will likely be approximately $375,000 per quarter through the end of fiscal 2006. The change in estimate will be recognized prospectively beginning in the third quarter. The Company has assigned approximately $5.5 million of the purchase price of the acquisitions to amortizable intangibles, consisting of contractually based customer relationships, the acquired database of potential associates and technology related to policyIQ. These intangibles will be amortized over one to five years. The Company is also amortizing intangible assets related to the TPC acquisition as well as the purchase of a United Kingdom practice in fiscal 2002. These intangible assets are amortizable through fiscal 2006. In the prior year second quarter, amortization expense related to the amortization of the cost of the non-compete agreement entered into when the Company acquired LLC (now fully amortized) and the intangible assets related to the United Kingdom practice.

Depreciation expense increased from $312,000 for the three months ended November 30, 2002 to $433,000 for the three months ended November 30, 2003. This increase reflects the impact of a full quarter of depreciation related to the acquisitions, the other offices opened since November 2002 and investments in information technology.

Interest Income. The Company has invested available cash in money market and commercial paper investments that have been classified as cash equivalents due to the short maturities of these investments. In addition, as of November 30, 2003, the Company has $15 million in government-agency bonds with maturity dates in excess of one year from the balance sheet date. The bonds mature through July 2005 and have coupon rates ranging from 1.5% to 2.4%. These investments have been classified in the November 30, 2003 consolidated balance sheet as “held-to-maturity” securities.

During the second quarter of fiscal 2004, interest income was $103,000 compared to interest income of $270,000 in the quarter ended November 30, 2002. The decrease in interest income is a combination of a lower average cash balance available for investment in the current quarter and the lower interest rates available year over year. The cash balance available for investment decreased from the second quarter of fiscal 2003 to the second quarter of fiscal 2004 as funds of approximately $30 million were used in the first quarter of fiscal 2004 to complete the acquisitions. The Company earned approximately 1.0%, annualized, on its money market, commercial paper and marketable securities investments during the quarter.

Income Taxes. The provision for income taxes increased from $2.3 million for the three months ended November 30, 2002 to $3.0 million for the three months ended November 30, 2003 as a result of the increase in the Company’s pre-tax income, offset by a minor decrease in the effective tax rate anticipated for fiscal 2004. The effective tax rates were approximately 40.5% and 41.0% for the three months ended November 30, 2003 and 2002, respectively, which differs from the federal statutory rate primarily due to state taxes, net of federal benefit. The Company’s tax rate decreased slightly from fiscal 2003 to fiscal 2004 because of a shift in provision for state taxes toward states with lower tax rates. There can be no assurance that the Company’s effective tax rate will not increase in the future.

Six Months Ended November 30, 2003 Compared to Six Months Ended November 30, 2002

The comments regarding the consolidated results of operation discussed below for the six months ended November 30, 2003 include the results of operations for the following periods: for TPC and Resources Connection Australia Pty Ltd, a full six months of results of operations; for RC.NL, results of operations from July 15, 2003 through November 30, 2003; and for policyIQ, results of operations from July 30, 2003 through November 30, 2003. The results of operations for the six months ended November 30, 2002 include operating results of TPC from October 11, 2002 onward. Collectively, these acquisitions are referred to in the comments below as “the acquisitions”.

Revenue. Revenue increased $39.8 million, or 42.5%, to $133.6 million for the six months ended November 30, 2003 from $93.7 million for the six months ended November 30, 2002. Growth in revenues of $21.5 million is attributable to additional revenues from the acquisitions and TPC. Without the additional revenue from the acquisitions, revenues increased 19.5%. This increase was triggered by the continued expansion of our scope of services resulting in more billable hours for our associates and an improvement in rate per hour. We believe our services expanded in finance and accounting, information technology, and internal audit engagements by increasing market awareness of our ability to provide those types of services. Overall bill rates improved by 8.9% compared to the prior year average bill rate. The increase in revenue is also reflected by the increase in the number of associates on assignment from 1,221 at the end of the second quarter of fiscal 2003 to 1,665 at the end of the second quarter of fiscal 2004 (including 286 associates working for the Australia and Netherlands practices as of November 30, 2003).

We operated 66 offices during the first six months of fiscal 2004 compared with 52 offices during the first six months of the previous fiscal year. Nine of the additional offices operated in the first half of fiscal 2004 were from the acquisitions.

Direct Cost of Services. Direct cost of services increased $25.3 million, or 44.9%, to $81.5 million for the six months ended November 30, 2003 from $56.2 million for the six months ended November 30, 2002. The increase in direct cost of services was attributable to the previously described expansion of the scope of services resulting in more chargeable hours for our associates at higher average pay rates as well as the results of the acquisitions completed in the first quarter of fiscal 2004; overall, the average pay rate per hour increased by 11.9% year-over-year. The direct cost of services as a percentage of revenue increased from 60.0% for the six months ended November 30, 2002 to 61.0% for the six months ended November 30, 2003. Among the factors contributing to this increase were: 1) the greater impact of the international operations with a higher direct cost of services percentage; 2) the increase in volume of zero margin client expense reimbursements as the Company’s projects requiring associate travel increased significantly; 3) the decrease in conversion fees in the current year compared to the prior year; and 4) the incremental increase in pay rate per hour compared to bill rate per hour.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $10.2 million, or 36.9%, to $37.7 million for the six months ended November 30, 2003 from $27.5 million for the three months ended November 30, 2002. This increase was primarily attributable to the acquisitions. In particular, compensation and related benefit expenses increased as management and administrative headcount grew from 328 at the end of the first half of fiscal 2003 to 436 at the end of the first half of fiscal 2004. Without the acquisitions, management and administrative headcount was 340. Not including the impact of the acquisitions on headcount, the five additional offices opened since the second quarter of 2003 also triggered an increase in headcount. The increase in dollars spent was also attributable to an increase in occupancy and related costs from the addition of new offices (apart from the acquisitions), an increase in marketing and advertising expenses related to the Netherlands practice and an increase in bonus expense from the Company’s improved revenue results. However, selling, general and administrative expenses decreased as a percentage of revenue from 29.4% for the six months ended November 30, 2002 to 28.2% for the six months ended November 30, 2003.

Amortization and Depreciation Expense. Amortization of intangible assets increased to $698,000 in the first half of fiscal 2004 compared to $157,000 in the prior year's first half. The increase over the prior year was caused by amortization related to the estimated amortizable intangibles of the acquisitions completed in the first quarter of fiscal 2004, as well as the intangibles of TPC, acquired in the second quarter of fiscal 2003. In the first six months of the prior year, amortization expense related only to the amortization of the cost of the non-compete agreement entered into when the Company acquired LLC and intangible assets related to the United Kingdom practice.

Depreciation expense increased from $627,000 for the six months ended November 30, 2002 to $820,000 for the six months ended November 30, 2003. This increase reflects the increased depreciation from assets acquired of the acquisitions completed in the first quarter of fiscal 2004,, the other offices opened since November 2002 and our investment in information technology.

Interest Income. During the first half of fiscal 2004, interest income was $275,000 compared to interest income of $608,000 in the six months ended November 30, 2002. The decrease in interest income is a combination of a lower average cash balance available for investment during the first six months of fiscal 2004 and the lower interest rates available year over year. The cash balance available for investment decreased from November 30, 2002 to November 30, 2003 as the funds were used to complete the acquisitions.

Income Taxes. The provision for income taxes increased from $4.0 million for the six months ended November 30, 2002 to $5.3 million for the six months ended November 30, 2003 as a result of the increase in the Company's pre-tax income, offset by a minor decrease in the effective tax rate anticipated for fiscal 2004. The effective tax rates were approximately 40.5% and 41.0% for the six months ended November 30, 2003 and 2002, respectively, which differs from the federal statutory rate primarily due to state taxes, net of federal benefit.

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

Liquidity and Capital Resources

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

On August 22, 2001, we entered into a $10.0 million unsecured revolving credit facility with Bank of America (the "Credit Agreement"). The Credit Agreement allows the Company to choose the interest rate applicable to advances. The interest rate options are Bank of America's prime rate, a London Inter-Bank Offered ("LIBOR") rate plus 1.5% or Bank of America's Grand Cayman Banking Center ("IBOR") rate plus 1.5%. Interest is payable on the Credit Agreement at various intervals no less frequently than quarterly. There is an annual facility fee of 0.25% payable on the unutilized portion of the Credit Agreement. The Credit Agreement, which originally expired September 1, 2003, has been extended to March 1, 2004. The Company is negotiating to extend the agreement for an additional two years. As of November 30, 2003, the Company had no outstanding borrowings under the revolving credit facility.

Net cash provided by operating activities was $4.6 million for the six months ended November 30, 2003 compared to $6.6 million for the six months ended November 30, 2002. The net decrease in cash provided by operations was caused primarily by the increase in accounts receivable during the second quarter from the increased revenue stream. In addition, the Company's increased revenue in fiscal 2003 resulted in higher obligations for the Company's incentive bonus plan as compared to the prior year; the required payments were made in fiscal 2004. The Company's working capital includes $31.0 million in cash and cash equivalents at November 30, 2003.

Net cash used in investing activities was $26.2 million for the first six months of fiscal 2004 compared to cash provided by investing activities of $4.1 million in the first six months of fiscal 2003. The Company used approximately $30.8 million in cash in the first and second quarters to complete the acquisitions as well as related transaction costs. In addition, the Company spent approximately $453,000 on leasehold improvements, office equipment and information technology upgrades in the first six months of fiscal 2004, up from $343,000 in the previous year's first half. The Company also had $20 million in long-term investments redeemed by the issuer in fiscal 2004, compared to $18 million in 2003. These investments, classified as long-term investments as of May 31, 2003 and May 31, 2002, were obligations of various United States government programs that contained a "call" feature at the discretion of the issuer of the bonds. During the first six months of both fiscal 2004 and 2003, the issuer redeemed the bonds.

Net cash provided by financing activities totaled $4.5 million for the six months ended November 30, 2003 compared to $1.7 million for the six months ended November 30, 2002. The increased volume of stock options exercised in fiscal 2004 caused this change.

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

Our credit agreement currently prohibits us from declaring or paying any dividends or other distributions on any shares of our capital stock other than dividends payable solely in shares of capital or the stock of our subsidiaries.

In October 2002, our board of directors approved a stock repurchase program, authorizing the repurchase of up to 1.5 million shares of our common stock. As of November 30, 2003, we had not repurchased any shares of our common stock under this program.

Recent Accounting Pronouncements

On December 23, 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106, and a revision of FASB Statement No. 132 ("FAS 132 (revised 2003)")". This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. The required information should be provided separately for pension plans and for other postretirement benefit plans. The new disclosures are generally effective for 2003 calendar year-end financial statements of public companies, with a delayed effective date for certain disclosures and for foreign plans. The Company is currently evaluating the effect of this pronouncement on its financial statement disclosures.

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

RISKS RELATED TO OUR BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

We do not have long-term agreements with our clients for the provision of services. The success of our business is dependent on our ability to secure new projects from clients. For example, if we are unable to secure new client projects because of improvements in our competitors' service offerings or because of an economic downturn decreasing the demand for outsourced professional services, our business is likely to be materially adversely affected.

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

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

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

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

We grew rapidly from our inception in 1996 until 2001 by opening new offices and by increasing the volume of services we provide through existing offices. We experienced a decline in revenue in fiscal 2002 to $181.7 million but then rebounded in fiscal 2003 to revenue of $202.0 million. Although revenue has increased in the first six months of fiscal 2004 compared to the same period in the prior year (not including revenues from acquisitions), there can be no assurance that we will continue to be able to maintain or expand our market presence in our current locations or to successfully enter other markets or locations. Our ability to successfully grow our business will depend upon a number of factors, including our ability to:

- grow our client base;
- expand profitably into new cities;
- provide additional professional services lines;
- hire associates;
- maintain margins in the face of pricing pressures; and
- manage costs.

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

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

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

- difficulties in staffing and managing foreign offices as a result of, among other things, distance, language and cultural differences;
- expenses associated with customizing our professional services for clients in foreign countries;
- foreign currency exchange rate fluctuations, when we sell our professional services in denominations other than U.S. dollars;
- protectionist laws and business practices that favor local companies;

- political and economic instability in some international markets;
- multiple, conflicting and changing government laws and regulations;
- trade barriers;
- reduced protection for intellectual property rights in some countries; and
- potentially adverse tax consequences.

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

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

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

Our future success depends upon the continued employment of Donald B. Murray, our chief executive officer, and Stephen J. Giusto, our chief financial officer. The departure of Mr. Murray, Mr. Giusto or any of the other key members of our senior management team could significantly disrupt our operations. Key members of our senior management team include Karen M. Ferguson, an executive vice president, John D. Bower, our vice president, finance, and Kate W. Duchene, our chief legal officer and executive vice president of human relations. We do not have employment agreements with Mr. Bower or Ms. Duchene.

Our quarterly financial results may be subject to significant fluctuations.

Our quarterly financial results have fluctuated in the past and we believe they will continue to do so in the future. Factors that could affect our quarterly operating results include:

- our ability to attract new clients and retain current clients;
- the mix of client projects;
- the announcement or introduction of new services by us or any of our competitors;
- the expansion of the professional services offered by us or any of our competitors into new locations both nationally and internationally;
- the entry of new competitors into any of our markets;
- changes in demand for our services by our clients;
- the number of associates eligible for our offered benefits as their average length of employment with us increases;
- the number of holidays in a quarter, particularly the day of the week on which they occur;
- changes in the pricing of our professional services or those of our competitors;

- the amount and timing of operating costs and capital expenditures relating to management and expansion of our business; and
- the timing of acquisitions and related costs, such as compensation charges which fluctuate based on the market price of our common stock.

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

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

In connection with providing services to clients in certain regulated industries, we are subject to industry-specific regulations, including licensing and reporting requirements. Complying with these requirements is costly and, if we fail to comply, we could be prevented from rendering services to clients in those industries in the future.

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

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

- authorize our board of directors to establish one or more series of undesignated preferred stock, the terms of which can be determined by the board of directors at the time of issuance;
- divide our board of directors into three classes of directors, with each class serving a staggered three-year term. Because the classification of the board of directors generally increases the difficulty of replacing a majority of the directors, it may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us and may make it difficult to change the composition of the board of directors;
- prohibit cumulative voting in the election of directors which, if not prohibited, could allow a minority stockholder holding a sufficient percentage of a class of shares to ensure the election of one or more directors;
- require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing;
- state that special meetings of our stockholders may be called only by the chairman of the board of directors, our chief executive officer, by the board of directors after a resolution is adopted by a majority of the total number of authorized directors, or by the holders of not less than 10% of our outstanding voting stock;
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting;
- provide that certain provisions of our certificate of incorporation can be amended only by supermajority vote of the outstanding shares, and that our bylaws can be amended only by supermajority vote of the outstanding shares or our board of directors;
- allow our directors, not our stockholders, to fill vacancies on our board of directors; and
- provide that the authorized number of directors may be changed only by resolution of the board of directors.

The Company’s board of directors has adopted a stockholder rights plan, which was described in the Company’s May 31, 2003 Report on Form 10-K. The existence of this rights plan may also have the effect of delaying, deferring or preventing a change of control of our company or our management by deterring acquisitions of our stock not approved by our board of directors.

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

We believe that establishing, maintaining and enhancing the Resources Connection brand name is essential to our business. We have obtained U.S. registrations on our service mark and logo, Registration No. 2,516,522 registered December 11, 2001, and No. 2,524,226 registered January 1, 2002 and No. 2,613,873, registered September 3, 2002. We have been aware from time to time of other companies using the name “Resources Connection” or some variation thereof. There could be potential trade name or service mark infringement claims brought against us by the users of these similar names and marks and those users may have service mark rights that are senior to ours. If these claims were successful, we could be forced to cease using the service mark “Resources Connection” even if an infringement claim is not brought against us. It is also possible that our competitors or others will adopt service names similar to ours or that our clients will be confused by another company using a name, service mark or trademark similar to ours, thereby impeding our ability to build brand identity. We cannot assure you that our business would not be adversely affected if confusion did occur or if we are required to change our name.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. At the end of the second quarter of fiscal 2004, we had approximately $46.0 million of cash, highly liquid short-term investments and long-term marketable securities. These investments are subject to changes in interest rates, and to the extent interest rates were to decline, it would reduce our interest income.

Foreign Currency Exchange Rate Risk. Prior to fiscal 2004, our foreign operations were not significant to our overall operations, and our exposure to foreign currency exchange rate risk was low. However, as our strategy to continue expanding foreign operations progresses, more of our revenues will be derived from foreign operations denominated in the currency of the applicable markets. As a result, our operating results could become subject to fluctuations based upon changes in the exchange rates of foreign currencies in relation to the U.S. dollar. Although we intend to monitor our exposure to foreign currency fluctuations, including the use of financial hedging techniques when we deem it appropriate, we cannot assure you that exchange rate fluctuations will not adversely affect our financial results in the future.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of second quarter of fiscal 2004, the Company’s management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”). Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of November 30, 2003 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. There was no change in the Company’s internal controls over financial reporting during the Company’s quarter ended November 30, 2003 that materially affected, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any material legal proceedings.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

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

On October 17, 2003, the Company held its annual meeting of stockholders. The only matter presented to stockholders at the annual meeting was the election of three directors. The vote for each director was as follows:

Nominee	Shares For	Shares Withheld
Donald B. Murray	19,468,954	700,586
Gerald Rosenfeld	19,306,864	862,676
A. Robert Pisano	19,362,084	807,456

The continuing directors, whose terms of office did not expire at the meeting, are Karen M. Ferguson, Stephen J. Giusto, C. Stephen Mansfield, Leonard Schutzman, John C. Shaw and Jolene Sykes. Mr. Schutzman has since resigned from our Board of Directors.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

*Filed herewith

b) Reports on Form 8-K

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

An amendment to a Form 8-K (item 7), filed on September 25, 2003, amending Item 7, Financial Statements, Pro Forma Financial Information and Exhibits of the original Form 8-K filed on July 30, 2003, to include the historical financial statements of Ernst & Young Executive Temporary Management B.V., and the pro forma financial information as required by Item 7 of Form 8-K.

Form 8-K (item 12), furnished on September 30, 2003, covering a press release announcing the Company’s financial results for the quarter ended August 31, 2003.

Form 8-K (item 9), furnished on November 25, 2003, covering a press release announcing the appointment of a new board member, Neil F. Dimick, and the resignation of a board member, Leonard Schutzman.

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 13, 2004	/s/ Donald B. Murray
	Donald B. Murray **President and Chief Executive Officer**
Date: January 13, 2004	/s/ Stephen J. Giusto
	Stephen J. Giusto **Chief Financial Officer, Executive Vice President of Corporate Development and Secretary** **(Principal Financial Officer)**

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Donald B. Murray, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Resources Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

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

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

Date: January 13, 2004

/s/ Donald B. Murray

Donald B. Murray
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Stephen J. Giusto, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Resources Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

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

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

Date: January 13, 2004

/s/ Stephen J. Giusto

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

EXHIBIT 32

WRITTEN STATEMENT
PURSUANT TO
18 U.S.C. SECTION 1350

The undersigned, Donald B. Murray, the Chief Executive Officer of Resources Connection, Inc., and Stephen J. Giusto, the Chief Financial Officer of Resources Connection, Inc. (the “Company”), pursuant to 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, 2003 (the “Report”) fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

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

Dated: January 13, 2004

/s/ Donald B. Murray

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

/s/ Stephen J. Giusto

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

The foregoing certification accompanied the Report on Form 10-Q pursuant to 18 U.S.C. Section 1350. It is being reproduced herein for information only. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and it is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.