UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

**FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

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

For the fiscal year ended May 31, 2004

OR

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

For the transition period from __________ to __________

Commission File Number: 0-32113

RESOURCES CONNECTION, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

695 Town Center Drive, Suite 600, Costa Mesa, California 92626
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (714) 430-6400

Securities registered pursuant to Section 12(b) of the Act:
None.

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
Common Stock, $0.01 par value

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

As of November 28, 2003, the approximate aggregate market value of common stock held by non-affiliates of the Registrant was $571,635,000 (based upon the closing price for shares of the Registrant's common stock as reported by The Nasdaq National Market). As of August 5, 2004, there were approximately 23,320,698 shares of common stock, $.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement for the 2004 Annual Meeting of Stockholders, is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

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RESOURCES CONNECTION, INC.

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In this Report on Form 10-K, "Resources Connection," "company," "we," "us" and "our" refer to the business of Resources Connection, Inc. and its subsidiaries. References in this Report on Form 10-K to "fiscal," "year" or "fiscal year" refer to our fiscal years that consist of the 52- or 53-week period ending on the Saturday in May closest to May 31.

This Report on Form 10-K, including information incorporated herein by reference, 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. 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.

PART I

ITEM 1. BUSINESS

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 with their compliance efforts under the Sarbanes-Oxley Act of 2002 ("Sarbanes").

We were founded in June 1996 by a team at Deloitte & Touche LLP ("Deloitte & Touche"), led by our current chief executive officer, Donald B. Murray, who was then a senior partner with Deloitte & Touche. Additional founding members include our current chief financial officer, Stephen J. Giusto, then also a Deloitte & Touche partner, and Karen M. Ferguson, the current regional managing director of our Northeast practice offices. Our founders created Resources Connection to capitalize on the increasing demand for high quality outsourced professional services. We operated as a division of Deloitte & Touche from our inception in June 1996 until January 1997. From January 1997 until April 1999, we operated as a subsidiary of Deloitte & Touche. In April 1999, we completed a management-led buyout. Prior to the management-led buyout, we were unable to provide certain accounting services to audit clients of Deloitte & Touche due to regulatory constraints applicable to us as a part of a Big Four accounting firm. Subsequent to the management-led buyout, we were able to expand the scope of services we provide to our clients. The Company is an independent company which is no longer affiliated with Deloitte & Touche.

Our business model combines the client service orientation and commitment to quality of a Big Four accounting firm with the entrepreneurial culture of an innovative, high-growth company. We are positioned to take advantage of what we believe are two converging trends in the outsourced professional services industry: increasing global demand for outsourced professional services by corporate clients and a supply of professionals interested in working in a non-traditional professional services firm. We believe our business model allows us to offer challenging yet flexible career opportunities, attract highly qualified, experienced professionals and, in turn, attract clients with challenging professional needs.

As of May 31, 2004, we employed approximately 2,100 professional service associates on assignment. Our associates have professional experience in a wide range of industries and functional areas. Based upon an internal, annual survey conducted in late calendar year 2003, to which approximately 47% of all then active associates responded, 49% of respondents were CPAs, 37% had advanced professional degrees, and the average years of professional experience was about 18. We offer our associates careers that combine the flexibility of project-based work with many of the advantages of working for a traditional professional services firm.

We have served a diverse client base of over 1,600 clients during fiscal 2004, ranging from large corporations to mid-sized companies to small entrepreneurial entities, in a broad range of industries. For example, our clients include approximately half of the Fortune 100, which accounted for approximately 11.1% and 15.2% of our revenues in fiscal 2004 and 2003, respectively, and all of the Big Four accounting firms. We have grown revenues from $71.4 million in fiscal 1999 to $328.3 million in fiscal 2004, a five-year compounded annual growth rate, or CAGR, of 35.7% and our income from operations over the same period has increased from

$9.1 million to $40.5 million, a five-year CAGR of 34.8%. We have been profitable every year since our inception. As of May 31, 2004, we served our clients through 49 offices in the United States and 15 offices abroad. During fiscal 2004, we completed three transactions that increased our ability to serve clients throughout the world. In fiscal 2004, $265.3 million, $43.8 million and $19.2 million of our revenues were generated in the United States, in the Netherlands and in other countries, respectively, compared with fiscal 2003 revenue of $194.0 million and $8.0 million generated in the United States and other countries, respectively.

The three transactions completed in the first quarter of fiscal 2004 enhance our international presence as well as our ability to assist clients with the compliance efforts under Sarbanes. The largest of the three was the all cash acquisition for $29.8 million of the outstanding capital shares of Ernst & Young's subsidiary, Executive Temporary Management BV ("ETM") in the Netherlands on July 15, 2003. ETM, renamed Resources Connection.NL BV ("RC.NL"), is considered a market leader in the interim management industry in the Netherlands. We believe this acquisition provides a foundation in continental Europe and allows us to market to our current and prospective multinational clients seeking an alternative to 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 240 professional service associates as of May 31, 2004.

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 Australia in an all cash deal for $1 million on June 1, 2003. We originally launched the subsidiary, now renamed Resources Connection Australia Pty. Ltd., in 1998 on behalf of the Deloitte Touche Tohmatsu Australia firm. The acquisition presented the opportunity to expand our Asia Pacific presence.

Finally, in July 2003, we acquired for $2 million the company that developed policyIQ™, a web-based solution for internal controls documentation and content management. The purchase included upfront cash and provision for contingent payments based on sales volume. policyIQ is a tool that our clients can use to assist in complying with Sarbanes, among other initiatives.

We believe our distinctive culture is a valuable asset and is in large part due to our management team, which has extensive experience in the professional services industry. Most of our senior management and office managing directors have Big Four experience and an equity interest in our company. This team has created a culture of professionalism that we believe fosters in our associates a feeling of personal responsibility for, and pride in, client projects and enables us to deliver high-quality service to our clients.

Industry Background

Demand for Project Professional Services

Resources Connection's services address a range of professional areas, with a majority of revenues derived from accounting and finance related services. The market for professional services is broad, and independent data on the size of the market is fragmented. For instance, a recent study published by Staffing Industry Analysts, Inc. estimates the size of the professional sector of the U.S. staffing market at $81.8 billion in 2004, but this is just a measure of the staffing component of professional services. Other components include, but are not limited to, CPA services and consulting services, each of which address multibillion dollar markets. Because of the corporate scandals documented in the media over the last few years, we believe the market for professional services is changing rapidly and that companies may be willing to choose alternatives to traditional professional service providers. We believe Resources Connection is a viable alternative to traditional accounting and consulting firms in numerous instances because, by using project professionals, companies can:

- strategically access specialized skills and expertise;
- effectively supplement internal resources;

- increase labor flexibility; and
- reduce their overall hiring and training costs.

Typically, companies use a variety of alternatives to fill their project professional services needs. Companies outsource entire projects to consulting firms; this provides them access to the expertise of the firm but often entails significant cost and less management control of the project. Companies also supplement their internal resources with employees from the Big Four accounting firms; however, these arrangements are on an ad hoc basis and have been increasingly limited by regulatory concerns focused on external auditor independence. Companies use temporary employees from traditional and Internet-based staffing firms, who may be less experienced or less qualified than employees of professional services firms. Finally, some companies rely solely on their own employees who may lack the requisite time, experience or skills.

Supply of Project Professionals

Concurrent with the growth in demand for outsourced professional services, we believe, based on discussions with our associates, that the number of professionals seeking to work on a project basis has increased due to a desire for:

- more flexible hours and work arrangements, coupled with competitive wages and benefits and a professional culture;
- challenging engagements that advance their careers, develop their skills and add to their experience base; and
- a work environment that provides a diversity of, and more control over, client engagements.

The employment alternatives historically available to professionals may fulfill some, but not all, of an individual's career objectives. A professional working for a Big Four firm or a consulting firm may receive challenging assignments and training, but may encounter a career path with less flexible hours and limited control over work engagements. Alternatively, a professional who works as an independent contractor faces the ongoing task of sourcing assignments and significant administrative burdens.

Resources Connection Solution

We believe that Resources Connection is positioned to capitalize on the confluence of these industry trends. We believe, based on discussions with our clients, that Resources Connection provides clients seeking project professionals with high-quality services because we are able to combine all of the following:

- a relationship-oriented approach to assess our clients' project needs;
- highly qualified professionals with the requisite skills and experience;
- competitive rates on an hourly, instead of a per project, basis; and
- significant client control of their projects.

Resources Connection Strategy

Our Business Strategy

We are dedicated to providing highly qualified and experienced accounting and finance, risk management, human resources management, supply chain and information technology professionals to meet our clients' project and interim professional services needs. Our objective is to be the leading provider of these project-based professional services. We have developed the following business strategies to achieve this objective:

- Maintain our distinctive culture. Our corporate culture is central to our business strategy and we believe has been a significant component of our success. Our senior management, virtually all of whom are Big Four alumni, has created a culture that combines the commitment to quality and the client service focus of a Big Four firm with the entrepreneurial energy of an innovative, high-growth company. We seek associates and management with talent, integrity, enthusiasm and loyalty ("TIEL") to strengthen our team and support our ability to provide clients with high-quality services. We believe that our culture has been instrumental to our success in hiring and retaining highly qualified associates and, in turn, attracting clients.
- Hire and retain highly qualified, experienced associates. We believe our highly qualified, experienced associates provide us with a distinct competitive advantage. Therefore, one of our priorities is to continue to attract and retain high-caliber associates. We believe we have been successful in attracting and retaining qualified professionals by providing challenging work assignments, competitive compensation and benefits, and continuing education and training opportunities, while offering flexible work schedules and more control over choosing client engagements.
- Build consultative relationships with clients. We emphasize a relationship-oriented approach to business rather than a transaction-oriented or assignment-oriented approach. We believe the professional services experience of our management and associates enables us to understand the needs of our clients and to deliver an integrated, relationship-oriented approach to meeting their professional services needs. We regularly meet with our existing and prospective clients to understand their business issues and help them define their project needs. Once a project is defined, we identify associates with the appropriate skills and experience to meet the client's needs. We believe that by establishing relationships with our clients to solve their professional services needs, we are more likely to generate new opportunities to serve them. The strength of our client relationships is demonstrated by the fact that all of our largest 50 clients in fiscal 2003 remained clients in fiscal 2004.
- Build the Resources Connection brand. Our objective is to build Resources Connection's reputation as the premier provider of project-based professional services. Our primary means of building our brand is by consistently providing high-quality, value-added services to our clients. We have also focused on building a significant referral network through our approximately 2,100 associates on assignment as of May 31, 2004 and over 450 management employees, most of whom have established relationships with a number of potential clients. In addition, we have ongoing national and local marketing efforts that reinforce the Resources Connection brand. These efforts include continuing our advertising campaign that commenced in the fourth quarter of fiscal 2002 in targeted business publications.

Our Growth Strategy

Most of our growth since inception has been organic rather than through acquisition. We believe we have significant opportunity for continued strong organic growth in our core business and have completed a few strategic acquisitions. In both our core and acquired businesses, key elements of our growth strategy include:

- Expanding work from existing clients. A principal component of our strategy is to secure additional project work from the clients we have served. We believe, based on discussions with our clients, that the amount of revenue we currently receive from most of our clients represents a relatively small percentage of the amount they spend on professional services, and that, consistent with industry trends, they may continue to increase the amount they spend on these services. We believe that by continuing to deliver high-quality services and by further developing our relationships with our clients, we will capture a significantly larger share of our clients' expenditures for professional services.

- Growing our client base. We will continue to focus on attracting new clients. We plan to develop new client relationships primarily by leveraging the significant contact networks of our management and associates and through referrals from existing clients. In addition, we believe we will attract new clients by building our brand name and reputation and through our national and local marketing efforts. During this past year, we have seen more revenue growth within larger, existing clients, though we also experienced the addition of new middle market clients. The total number of clients served in 2004 was over 1,600 versus 1,200 in 2003. We anticipate that our growth efforts this year will continue to focus on identifying strategic target accounts that tend to be large companies.
- Expanding geographically. We plan to expand geographically to meet the demand for project professional services. We believe that there are significant opportunities to grow our business internationally and, consequently, we intend to continue to expand our international presence on a strategic and opportunistic basis. We also expect to add to our existing domestic office network with a few new offices strategically located to meet the needs of our existing clients and to create additional new client opportunities.
- Providing additional professional services lines. We will continue to explore, and consider entry into, new professional services lines. Since fiscal 1999, we have diversified our professional services lines by entering into the areas of human resources management, information technology, internal audit and supply chain management. Our considerations when evaluating new professional services lines include growth potential, profitability, cross-marketing opportunities and competition.

Associates

We believe that an important component of our success has been our highly qualified and experienced associates. As of May 31, 2004, we employed approximately 2,100 associates on assignment. Our associates have professional experience in a wide range of industries and functional areas. We provide our associates with challenging work assignments, competitive compensation and benefits, and continuing education and training opportunities, while offering flexible work schedules and more control over choosing client engagements.

Our associates in the United States are primarily employees of Resources Connection. We typically pay each associate an hourly rate, overtime premiums as required by law, and offer benefits, including paid vacation and holidays; referral bonus programs; group medical, dental and vision programs, each with an approximate 50% contribution by the associate; a basic term life insurance program; a matching 401(k) retirement plan; and professional development and career training. Typically, an associate must work a threshold number of hours to be eligible for all of the benefits. We also have a long-term incentive plan for our associates, that provides the opportunity to earn an annual cash bonus vesting over time. In addition, we offer our associates the ability to participate in the Company's Employee Stock Purchase Plan. We intend to maintain competitive compensation and benefit programs.

Internationally, our associates are a mix between employees and independent contractors. Such arrangements are more common due to the laws and customs of the international markets we serve.

Clients

We provide our services to a diverse client base in a broad range of industries. In fiscal 2004, we served over 1,600 clients. Our revenues are not concentrated with any particular client or clients, or within any particular industry. In fiscal 2004, no single client accounted for more than 6% of our revenue and our 10 largest clients accounted for approximately 25% of our revenues.

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The clients listed below represent the geographic and industry diversity of our client base in fiscal 2004.

American Honda Financial Corporation	El Paso Corporation
Blue Shield of California	Exelon Corporation
C&H Sugar	Great West Life and Annuity Life Insurance Company
CB Richard Ellis	PepsiCo Inc.
Conoco Phillips	Siemens Corporation
Credit Suisse First Boston Corporation	Southwest Airlines
Dolby Laboratories, Inc	Toshiba America Electronic Components, Inc.

Services

Our current professional services capabilities include accounting and finance, risk management and internal audit, information technology, human resources and supply chain management. In fiscal 2004, our revenue from providing accounting and finance services accounted for a majority of our revenue. Our engagements are project-based and often last three months or longer.

Accounting and Finance

Our accounting and finance services include:

Special Projects: Our accounting and finance associates work on a variety of special projects including:

- financial analyses, such as product costing and margin analyses;
- tax-related projects, such as tax compliance and analysis of tax liabilities resulting from acquisitions; and
- resolving complex accounting problems, such as large out-of-balance accounts and unreconciled balances.

Sample Engagement: We provided five associates over a 12-month period to assist a large non-profit health plan in creating a uniform chart of accounts in preparation for an ERP financial system implementation. Our associates were responsible for:

- acting as a liaison between functional and technical user groups;
- managing project plans for the respective areas affected by the chart of accounts changes including all financial systems, human resources groups and supply chain departments; and
- developing the change management plan.

MD&A - Divestitures and Carve Outs: Our accounting and finance associates assist with the following functions for clients involved in divestitures and carve outs:

- preparation of public filings related to the transactions;
- preparation for carve out audits; and
- providing subject matter experts to perform technical research of complex accounting transactions, implementations and interpretations of pronouncements of the Financial Accounting Standards Board ("FASB").

Sample Engagement: We have provided more than 20 associates to assist a large energy client with the divestiture of a business unit and the sale of other significant assets. The project included three project teams each led by a seasoned project manager assigned to oversee the delivery of our services and provide subject matter expertise. Our associates were responsible for:

- preparing financial statements in accordance with generally accepted accounting principles ("GAAP") and related footnotes for carve out businesses;
- performing net book value calculations for assets sold and subsequent reconciliation and retirement of sold assets;
- preparing Securities and Exchange Commission ("SEC") and other regulatory filings associated with the transactions;
- performing research of technical GAAP accounting issues related to the transaction;
- project management of the Sarbanes implementation for the divested business unit; and
- pre and post divestiture integration balance sheet cleanup.

ERP Implementations and Conversions: Our accounting and finance associates work on a variety of projects that arise when a company implements or converts to a new system including:

- project management;
- assisting with technical support;
- performing ERP implementations;
- developing and executing training programs;
- change management; and
- maintaining daily operations during the implementation.

Sample Engagement: We provided 11 associates over a two-year period to assist a leading producer, marketer and distributor of refined sugar products in the western United States in a SAP implementation. The system conversion impacted accounting and finance, human resources, customer service, planning, warehouse management, production and operations. Our associates were responsible for:

- developing, documenting and evaluating business requirements;
- leading the vendor selection process, including vendor negotiations and management;
- project management of the ERP implementation;
- providing technical support and guidance to the implementation team;
- assisting with change management, leadership and communication;
- performing pre and post conversion tests;
- designing training programs and managing the training function;
- management of system optimization; and
- maintaining daily accounting and finance operations during the implementation and conversion process in order to minimize disruption to the organization.

Human Resources Management

Our human resources management professional services group was formed in June 1999. Our human resources management services include:

- supporting day-to-day human resources (“HR”) operations;
- selecting, implementing and optimizing HR Technology;
- assisting with optimizing a company’s workforce; and
- providing interim human resources management.

Sample Engagement: A client that needed to restate its financials identified that it was necessary to reorganize and optimize its financial and accounting team. Our HR associates assisted by:

- helping to create a new, centralized organizational chart;
- writing job descriptions;
- integrating the new jobs with the company’s compensation structure;
- mapping the employees to the new roles; and
- designing and implementing programs to train the employees or to help them exit the company.

Sample Engagement: As a client neared the end of an update of its internal control documentation, it identified the need to communicate the changes to the diverse workforce. Our HR associates assisted by:

- creating a change management and communication plan;
- facilitating seminars; and
- developing a feedback mechanism to collect responses to the training.

As that company began to implement its shared services organization, we provided a training expert to help with team development and change management.

Information Technology

Our information technology professional services group was formed in June 1998. Our information management services include:

- financial system/enterprise resource planning implementation and post implementation optimization;
- human resource information system (“HRIS”) implementation and integration; and
- supporting analytical systems such as consolidation and budgeting and planning tools.

Sample Engagement: We provided four associates over a six-month period to redesign the reporting process and re-implement an enterprise-wide software application for a diversified international manufacturing corporation. The challenge included managing the complexities of balancing United States financial accounting reporting, international financial accounting reporting and internal operational reporting while creating as little disruption as possible to the users. Our team included a project manager, a technical expert and report writing specialists. Our associates were responsible for:

- creating new reports to satisfy statutory and operational requirements and streamlining and rationalizing 400 existing reports;

- re-implementing a chart of accounts to support reporting requirements of diverse operational segments;
- executing a communication plan to educate and create buy-in with the users; and
- completing other special projects such as legal entity rationalization.

Sample Engagement: A highly decentralized banking client was challenged to shorten its close process and improve the accuracy of its financial reporting and needed assistance in selecting a system to meet these objectives. Resources' associates:

- assisted with creating system selection criteria which would encompass Sarbanes section 404 and 409 requirements;
- managed the system selection process;
- provided project management through the implementation phase; and
- assisted with follow up documentation to ensure ongoing compliance with federal regulations.

Resources Audit Solutions (RAS): Internal Audit, Internal Controls and Sarbanes-Oxley Services

Our RAS subsidiary was formed in June 2002 to assist our clients with a variety of governance-related projects, including:

- assisting internal audit departments with the execution of audit plans, assessing risk management practices and special projects;
- assisting clients with the development of a process designed to more effectively and efficiently distribute, monitor and manage financial reporting–related policies utilizing policyIQ, our proprietary web-based solution for enterprise-wide policy development and management. policyIQ is a tool that clients can use to assist with policy management and compliance programs, including regulations associated with Sarbanes; and
- assisting clients around the world with compliance efforts related to Sarbanes, including: project management support; documenting existing business processes, practices, workflows and identifying internal controls; testing internal controls; remediation of deficiencies, including changes to policies and procedures; and planning and implementation of an ongoing Sarbanes compliance process for subsequent years.

Sample Engagement: We provided 42 associates, covering eight countries over a two-month period, to assist a global conglomerate with the execution of its global internal audit plan. Our associates were responsible for:

- working under the direction of the corporate internal audit function; and
- executing audit testing of selected business units around the world.

Sample Engagement: We are supporting an initiative to automate the financial reporting policy distribution and management process for a Fortune 500 conglomerate, implementing policyIQ.

Sample Engagement: Serving as one of two external service providers (the other is a Big Four firm), we provided 30 associates to assist a Fortune 500 financial services company with their Sarbanes compliance efforts. Our associates worked with eight business units in ten global locations to assist client teams with various elements of Sarbanes compliance, including:

- documenting existing business processes, practices, and workflows;

- testing selected internal controls within those processes;
- performing selected elements of project management within the client's project management office;
- executing remediation efforts; and
- planning for the following year compliance documentation and testing.

Supply Chain Management

We purchased The Procurement Centre in October 2002. The practice was renamed Resources Connection Supply Chain Management in fiscal year 2004. Our supply chain management services include:

- providing qualified supply chain professionals with a variety of skill-sets and backgrounds including: working as sourcing team members, leading strategic sourcing efforts, negotiating contracts, serving as commodity/category experts, developing strategies and performing tactical purchasing;
- performing evaluation and execution of processes, procedures, policies and organizational design in the supply chain management and procurement functions of large corporations;
- offering a variety of supply chain management solutions, including strategic sourcing, inventory rationalization, supplier diversity assistance, ERP implementations and procurement card programs; and
- presenting a variety of onsite training and education seminars to keep customers updated on the latest trends in purchasing and supply chain management.

Sample Engagement: For a global chemical manufacturer, our associate reviewed the current organization, supply chain processes, tools and methods utilized by each of six chemical plants located in North America. Our associate produced the following:

- plant comparison matrix;
- listing of major issues and risks;
- "as-is" process maps by plant;
- proposed high-level "to-be" process maps; and
- proposed organization structure, metrics, reports and transition plan.

Sample Engagement: Over the past year, we have provided associates who have assisted a Fortune 500 transportation company by:

- serving as subject matter experts for strategic sourcing initiatives in the freight and print spend areas; and
- leading strategic sourcing initiatives for information technology and other critical spend areas.

Sample Engagement: Over a six-month period, we provided an entire curriculum of supply chain management training and education courses for a Fortune 500 retailer, training approximately 70 client professionals. Courses included:

- contract writing;
- strategic planning;
- analytical methods and strategic sourcing;

- advanced purchasing and supply chain management techniques; and
- negotiation skills.

Operations

We generally provide our professional services to clients at a local level, with the oversight and consultation of our corporate management team, located in our corporate service center, and our regional managing directors. The managing director, client service director(s) and recruiting director(s) in each office are responsible for initiating client relationships, identifying associates specifically skilled to perform client projects, ensuring client and associate satisfaction throughout engagements and maintaining client relationships post-engagement. Throughout this process, the corporate management team and regional managing directors are available to consult with the managing director with respect to client services.

Our offices are operated in a decentralized, entrepreneurial manner. The managing directors of our offices are given significant autonomy in the daily operations of their respective offices, and with respect to such offices, are responsible for overall guidance and supervision, budgeting and forecasting, sales and marketing, pricing and hiring. We believe that a substantial portion of the buying decisions made by our clients are made on a local or regional basis and that our offices most often compete with other professional services providers on a local or regional basis. Because our managing directors are in the best position to understand the local and regional outsourced professional services market and because clients often prefer local relationships, we believe that a decentralized operating environment maximizes operating performance and contributes to employee and client satisfaction.

We believe that our ability to successfully deliver professional services to clients is dependent on our managing directors working together as a collegial and collaborative team, at times working jointly on client projects. To build a sense of team effort and increase camaraderie among our managing directors, we have an incentive program for our office management that awards annual bonuses based on both the performance of the company and the performance of the director’s particular office. In addition, most members of our office management own equity in our company. We also have a managing director program whereby new managing directors attend a regularly scheduled series of seminars led by experienced managing directors. This program allows the veteran managing directors to share their success stories, foster the culture of the Company with the new managing directors and review specific client and associate development programs. We believe these team-based practices enable us to better serve clients who prefer a centrally organized service approach.

From our corporate headquarters in Costa Mesa, California, we provide our domestic and some international offices with centralized administrative, human resources, marketing, finance and legal support. Our corporate service center handles billing, accounts payable and accounts receivable, and administers human resources including employee compensation and benefits. In addition, we have a corporate networked information technology platform with centralized financial reporting capabilities and a front office client management system. These centralized functions minimize the administrative burdens on our office management and allow them to spend more time focused on client and associate development. Our practice in the Netherlands provides its own administrative, marketing, finance and legal support and some of our other international practices subcontract these services.

Business Development

Our business development initiatives are composed of:

- local sales initiatives focused on existing clients and target companies;
- brand marketing activities; and
- national and local direct mail programs.

Our business development efforts are driven by the networking and sales efforts of our management. The managing directors and client service directors in our offices develop a list of potential clients and key existing clients. In addition, the directors are assisted by management professionals focused on business development efforts on a national basis. These business development professionals, teamed with the managing directors and client service group, are responsible for initiating and fostering relationships with the senior management of our targeted client companies. These local efforts are supplemented with national marketing assistance. We believe that these efforts have been effective in generating incremental revenues from existing clients and developing new client relationships.

Our brand marketing initiatives help develop Resources Connection's image in the markets we serve. Our brand is reinforced by our professionally designed website, brochures and pamphlets, direct mail, public relations efforts and advertising materials. We believe that our branding initiatives coupled with our high-quality client service differentiate us from our competitors and establish Resources Connection as a credible and reputable professional services firm.

Our national marketing group develops our direct mail campaigns to focus on our targeted client and associate populations. These campaigns are intended to support our branding, sales and marketing, and associate hiring initiatives.

Competition

We operate in a competitive, fragmented market and compete for clients and associates with a variety of organizations that offer similar services. Our principal competitors include:

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

We compete for clients on the basis of the quality of professionals, the timely availability of professionals with requisite skills, the scope and price of services, and the geographic reach of services. We believe that our attractive value proposition, consisting of our highly qualified associates, relationship-oriented approach and professional culture, enables us to differentiate ourselves from our competitors. Although we believe we compete favorably with our competitors, many of our competitors have significantly greater financial resources, generate greater revenues and have greater name recognition than our company.

Employees

As of May 31, 2004, we had a total of 2,550 employees, including 464 corporate and office-level employees and 2,086 professional services associates. None of our employees is covered by a collective bargaining agreement.

Available Information

The Company's principal executive offices are located at 695 Town Center Drive, Suite 600, Costa Mesa, California 92626. The Company's telephone number is (714) 430-6400 and its web site address is http://www.resourcesconnection.com. The information set forth in the web site does not constitute part of this Report on Form 10-K. We file our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 with the SEC electronically. The public may read or copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov.

A free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports may be obtained as soon as reasonably practicable after we file such reports with the SEC on our website at http://www.resourcesconnection.com.

ITEM 2. PROPERTIES

As of May 31, 2004, we maintained a total of 49 domestic offices, a few with multiple office locations in the same city, which are located in the following metropolitan areas:

Phoenix, Arizona	Boise, Idaho	Cincinnati, Ohio
Costa Mesa, California	Chicago, Illinois	Cleveland, Ohio
Los Angeles, California	Indianapolis, Indiana	Columbus, Ohio
Sacramento, California	Baltimore, Maryland	Portland, Oregon
Santa Clara, California	Boston, Massachusetts	Philadelphia, Pennsylvania
San Diego, California	Detroit, Michigan	Pittsburgh, Pennsylvania
San Francisco, California	Minneapolis, Minnesota	Nashville, Tennessee
Walnut Creek, California	Kansas City, Missouri	Austin, Texas
Denver, Colorado	St. Louis, Missouri	Dallas, Texas
Hartford, Connecticut	Las Vegas, Nevada	Fort Worth, Texas
Stamford, Connecticut	Parsippany, New Jersey	Houston, Texas
Jacksonville, Florida	Princeton, New Jersey	San Antonio, Texas
Orlando, Florida	Long Island, New York	Seattle, Washington
Tampa, Florida	New York, New York	Milwaukee, Wisconsin
Atlanta, Georgia	Syracuse, New York	Washington, D.C.
Honolulu, Hawaii	Charlotte, North Carolina	

As of May 31, 2004, we maintained 15 international offices, which are located in the following cities and countries:

Melbourne, Australia	Hong Kong, People's Republic of China	Amsterdam, Netherlands	Groningen, Netherlands
Sydney, Australia	Taipei, Taiwan	Apeldoorn, Netherlands	Maarssen, Netherlands
Toronto, Canada	Birmingham, United Kingdom	Den Haag, Netherlands	Rotterdam, Netherlands
Tokyo, Japan	London, United Kingdom	Eindhoven, Netherlands	

Our corporate offices are located in Costa Mesa, California office in a 19,048 square foot facility under a lease expiring in June 2007.

ITEM 3. LEGAL PROCEEDINGS

We are not currently subject to any material legal proceedings; however, we are a party to various legal proceedings arising in the ordinary course of our business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

Our common stock has traded on the Nasdaq National Market under the symbol “RECN” since December 15, 2000. Prior to that time, there was no public market for our common stock. The approximate number of holders of record of our common stock as of May 31, 2004 was 326.

The following table sets forth the range of high and low closing sales prices reported on the Nasdaq National Market for our common stock for the periods indicated.

	Price Range of Common Stock	
	High	Low
Fiscal 2003:		
First Quarter	$ 27.30	$ 16.50
Second Quarter	$ 19.00	$ 11.57
Third Quarter	$ 23.21	$ 16.54
Fourth Quarter	$ 23.54	$ 17.81
Fiscal 2004:		
First Quarter	$ 28.30	$ 20.35
Second Quarter	$ 29.03	$ 24.09
Third Quarter	$ 36.06	$ 26.72
Fourth Quarter	$ 44.94	$ 32.80
Fiscal 2005:		
First Quarter (June 1, 2004 through August 5, 2004)	$ 46.70	$ 35.09

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We will periodically evaluate our cash position and may declare a special dividend if we deem our cash to be excessive. We currently intend to retain any future earnings to finance the growth and development of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, capital requirements, general business condition, contractual restrictions contained in other agreements, and other factors deemed relevant by our board of directors.

Issuances of Unregistered Securities

On October 11, 2002, the Company entered into an Asset Purchase Agreement (the “Agreement”), with RC Transaction Corp., a wholly owned subsidiary of the Company (“RC”), The Procurement Centre, LLC (the “Seller”), and certain members of the Seller, pursuant to which RC acquired certain assets and liabilities of the Seller. As part of the consideration, on October 11, 2002, the Company issued 116,000 shares of its common stock to the Seller. The Agreement valued such shares at approximately $1,504,000.

The issuance of the common stock by the Company to the Seller was a transaction not involving a public offering, and is exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The facts relied on to make this exemption available include, without limitation, the following: (i) the offering did not involve any general solicitation or advertising; (ii) the offering was made to the Seller solely in connection with the acquisition of the assets of the Seller; (iii) the Company obtained representations from the members of the Seller regarding, among other things, investment intent, status as accredited investors, and access to information.

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ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected historical consolidated financial data in conjunction with our consolidated financial statements and related notes beginning on page 34 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing on page 17. The consolidated statements of income data for the years ended May 31, 2001 and May 31, 2000 and the consolidated balance sheet data at May 31, 2002, 2001 and 2000 were derived from our consolidated financial statements that have been audited by PricewaterhouseCoopers LLP and are not included in this Report on Form 10-K. The consolidated statements of income data for the years ended May 31, 2004, 2003 and 2002 and the consolidated balance sheet data at May 31, 2004 and 2003 were derived from our consolidated financial statements that have been audited by PricewaterhouseCoopers LLP and are included elsewhere in this Report on Form 10-K. Historical results are not necessarily indicative of results that may be expected for any future periods.

	YEARS ENDED MAY 31,				
	2004	2003	2002	2001	2000
	(in thousands, except net income per common share and other data)				
Consolidated Statements of Income Data:					
Revenue	$ 328,333	$ 202,022	$ 181,677	$ 191,496	$ 127,459
Direct cost of services	199,870	121,648	108,715	112,555	74,668
Gross profit	128,463	80,374	72,962	78,941	52,791
Selling, general and administrative expenses	84,301	58,248	50,688	49,964	34,648
Amortization of intangible assets	1,716	655	125	2,273	2,231
Depreciation expense	1,907	1,290	1,180	866	285
Income from operations	40,539	20,181	20,969	25,838	15,627
Interest income	(593)	(1,077)	(1,183)	(633)	-
Interest expense	-	-	-	3,629	4,717
Income before provision for income taxes	41,132	21,258	22,152	22,842	10,910
Provision for income taxes	16,798	8,716	8,861	9,137	4,364
Net income	$ 24,334	$ 12,542	$ 13,291	$ 13,705	$ 6,546
Net income per common share:					
Basic	$ 1.06	$ 0.57	$ 0.63	$ 0.77	$ 0.42
Diluted	$ 1.00	$ 0.55	$ 0.58	$ 0.71	$ 0.42
Weighted average common shares outstanding:					
Basic	22,992	21,849	21,241	17,864	15,630
Diluted	24,390	22,869	22,862	19,421	15,714
Other Data:					
Number of offices opened at end of period	64	55	47	44	35
Total number of associates on assignment at end of period	2,086	1,175	1,060	1,283	1,056

	MAY 31,				
	2004	2003	2002	2001	2000
Consolidated Balance Sheet Data:					
Cash, cash equivalents and long-term marketable securities	$ 69,839	$ 68,078	$ 55,745	$ 34,503	$ 4,490
Working capital	78,528	60,177	43,135	42,965	7,664
Total assets	226,263	155,937	130,588	105,345	70,106
Long-term debt, including current portion	-	-	-	-	41,771
Stockholders' equity	180,334	133,531	113,471	86,032	17,185

ITEM 7. 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 that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in "Risk Factors" starting on page 27 and elsewhere in this Report on Form 10-K.

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 with their compliance efforts under the Sarbanes-Oxley Act of 2002 ("Sarbanes").

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

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

During fiscal 2003, we commenced operations of Resources Audit Solutions, LLC ("RAS"), an entity focused primarily on providing internal audit services, and we acquired The Procurement Centre, LLC (now operating as our Resources Connection Supply Chain Management subsidiary ("SCM")), a Texas based provider of supply chain management services to companies on a project basis. 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 and their office was subsequently closed. Services provided by RCG continue to be provided by the other operating units of Resources Connection. No material impact on operations has been experienced because of this change.

During the first quarter of fiscal 2004, we completed three transactions to enhance our international presence as well as our ability to assist clients with compliance efforts under Sarbanes. The largest of the three was the all cash acquisition for $29.8 million of the outstanding capital shares of Ernst & Young's subsidiary, Executive Temporary Management BV ("ETM") in the Netherlands on July 15, 2003. ETM, renamed Resources Connection.NL BV ("RC.NL"), is considered a market leader in the interim management industry in the Netherlands. We believe this acquisition provides a foundation in continental Europe and will allow us to market to our current and prospective multinational clients seeking an alternative to 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 240 professional service associates on assignment as of May 31, 2004.

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

Finally, in July 2003, we acquired the company that developed policyIQ, a web-based solution for internal controls documentation and content management. The purchase included upfront cash of $2 million and a provision for contingent payments based on sales volume. policyIQ is a tool that our clients can use to assist in complying with Sarbanes, among other initiatives.

In the third quarter of fiscal 2004, we opened an office in Tokyo, Japan, continuing to expand our operations in the Asia Pacific region. We have also opened two domestic offices during the current fiscal year. As of May 31, 2004, we served our clients through 49 offices in the United States and 15 offices abroad.

We primarily 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. 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 and represented 0.6%, 1.0% and 1.6% of our revenue for the years ended May 31, 2004, 2003 and 2002, respectively. We periodically review our outstanding accounts receivable balance and determine an estimate of the amount of those receivables we believe may prove uncollectible. Our provision for bad debts is included in our selling, general and administrative expenses.

The costs to pay our professional associates and all related benefit and incentive costs, including provisions for paid time off and other employee benefits, are included in direct cost of services. We pay most of our associates on an hourly basis for all hours worked on client engagements and, therefore, direct cost of services tends to vary directly with the volume of revenue we earn. We expense the benefits we pay to our associates as they are earned. These benefits include paid vacation and holidays; a bonus incentive plan; referral bonus programs; subsidized group health, dental and life insurance programs; a matching 401(k) retirement plan; the ability to participate in the Company's Employee Stock Purchase Plan; and professional development and career training. In addition, we pay the related costs of employment, including state and federal payroll taxes, workers' compensation insurance, unemployment insurance and other costs. Typically, an associate must work a threshold number of hours to be eligible for all of the benefits. We recognize direct cost of services when incurred.

Selling, general and administrative expenses include the payroll and related costs of our internal management as well as general and administrative, marketing and recruiting costs. Our sales and marketing efforts are led by our management team who are salaried employees and earn bonuses based on operating results for our company as a whole and within each manager's geographic market.

The Company's fiscal year consists of 52 or 53 weeks, ending on the last Saturday in May. For fiscal years of 53 weeks, such as fiscal 2003, the first three quarters consist of 13 weeks each and the fourth quarter consists of 14 weeks. The actual quarter end dates for fiscal 2004 and 2003 were as follows: for fiscal 2004, August 30, 2003 (first quarter); November 29, 2003 (second quarter); February 28, 2004 (third quarter); and May 29, 2004 (fourth quarter); and for fiscal 2003, August 24, 2002 (first quarter); November 23, 2002 (second quarter); February 22, 2003 (third quarter); and May 31, 2003 (fourth quarter). For convenience, all references herein to years or periods are to years or periods ended May 31.

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 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 of our stock, 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 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.

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, an adjustment of 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.

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Results of Operations

The following tables set forth, for the periods indicated, our consolidated statements of income data. These historical results are not necessarily indicative of future results.

	For The Years Ended May 31,		
	2004	2003	2002
		(amounts in thousands)	
Revenue	$ 328,333	$ 202,022	$ 181,677
Direct cost of services	199,870	121,648	108,715
Gross profit	128,463	80,374	72,962
Selling, general and administrative expenses	84,301	58,248	50,688
Amortization of intangible assets	1,716	655	125
Depreciation expense	1,907	1,290	1,180
Income from operations	40,539	20,181	20,969
Interest income	(593)	(1,077)	(1,183)
Income before provision for income taxes	41,132	21,258	22,152
Provision for income taxes	16,798	8,716	8,861
Net income	$ 24,334	$ 12,542	$ 13,291

Our operating results for the periods indicated are expressed as a percentage of revenue below.

	For The Years Ended May 31,		
	2004	2003	2002
Revenue	100.0%	100.0%	100.0%
Direct cost of services	60.9	60.2	59.8
Gross profit	39.1	39.8	40.2
Selling, general and administrative expenses	25.7	28.8	27.9
Amortization of intangible assets	0.5	0.3	0.1
Depreciation expense	0.6	0.7	0.7
Income from operations	12.3	10.0	11.5
Interest income	(0.2)	(0.5)	(0.7)
Income before provision for income taxes	12.5	10.5	12.2
Provision for income taxes	5.1	4.3	4.9
Net income	7.4%	6.2%	7.3%

Year Ended May 31, 2004 Compared to Year Ended May 31, 2003

The comments following for the year ended May 31, 2004 include the results of operations for the full year for Resources Connection Australia Pty Ltd; from July 15, 2003 for RC.NL; and from July 30, 2003 for policyIQ. The acquisitions, completed in the first quarter of fiscal 2004, are referred to in the comments below as “the acquisitions”. The results of operations of SCM are included for the year ended May 31, 2003 from October 11, 2002. Finally, the results of operations for the fiscal year ended May 31, 2003 consist of 53 weeks, while the results of operations for the fiscal year ended May 31, 2004 consist of 52 weeks.

Revenue. Revenue increased $126.3 million or 62.5% to $328.3 million for the year ended May 31, 2004 from $202.0 million for the year ended May 31, 2003. The acquisitions contributed $51.1 million to the growth in revenues compared to the prior year. Without the additional revenue from the acquisitions, revenues increased 37.2%. This increase was triggered by the continued expansion of our scope of services and improved overall demand for our services, resulting in more billable hours for our associates and an improvement in rate per hour. We believe our services expanded in finance and accounting, information technology and Sarbanes related engagements by increasing market awareness of our ability to provide those types of services. Additional regulatory changes, such as the New York Stock Exchange requirement that all listed companies maintain or create an internal audit department, may generate opportunities for expanding our services. Average bill rates improved by 8.6% compared to the prior year average bill rate. The increase in revenue for the year is also reflected by the increase in the number of associates on assignment from 1,175 at the end of fiscal 2003 to 2,086 at the end of fiscal 2004 (including 284 associates working for the Australian and Netherlands practices as of May 31, 2004). We operated 64 offices during the final quarter of fiscal 2004, compared to 55 offices in the last quarter of fiscal 2003. While general economic conditions improved in the United States in fiscal 2004, the market for our Dutch practice (13.3% of revenue in fiscal 2004) remains difficult. In addition, 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.

Direct Cost of Services. Direct cost of services increased $78.2 million or 64.3% to $199.9 million for the year ended May 31, 2004 from $121.6 million for the year ended May 31, 2003. The increase in direct cost of services was attributable to the previously described expansion of the scope of services resulting in more chargeable hours for our associates at higher average pay rates as well as the impact of the services provided by associates employed by the acquisitions. Overall, the average pay rate per hour increased 13.9% year-over-year. The direct cost of services increased as a percentage of revenue from 60.2% for fiscal year 2003 to 60.9% for fiscal year 2004. Among the factors contributing to this increase were: 1) the incremental increase in pay rate per hour compared to bill rate per hour; 2) the greater impact of international operations which use a higher percentage of independent contractors; 3) the increase in dollar volume of zero margin client expense reimbursements, as the Company’s projects in fiscal 2004 requiring associate travel increased significantly; and 4) the decrease in conversion fees as a percentage of revenues in fiscal 2004 compared to fiscal 2003 (conversion fees are non-refundable fees recognized when a client hires one of our associates).

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

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased as a percentage of revenue from 28.8% for the year ended May 31, 2003 to 25.7% for the year ended May 31, 2004 as a result of improved leverage. Selling, general and administrative expenses increased $26.1 million or 44.7% to $84.3 million for the year ended May 31, 2004 from $58.2 million for the year ended May 31, 2003. This increase was primarily attributable to the acquisitions. In particular, compensation and related benefit expenses increased because management and administrative headcount grew from 344 at the end of fiscal 2003 to 464 at the end of fiscal 2004. Excluding the acquisitions, management and administrative headcount was 359 at the end of fiscal 2004. The increase in dollars spent (apart from the acquisitions) was attributable to the increase in salaries and benefit costs driven by the larger headcount and occupancy and related costs from new offices opened. In addition, marketing and advertising expenses increased in the current fiscal year, primarily related to the Netherlands practice; bonus expense increased as a result of the Company’s improved revenue results; and the Company increased its provision for bad debts in fiscal 2004 as compared to fiscal 2003 with the increase in revenues during the year.

Amortization and Depreciation Expenses. Amortization of intangible assets increased to $1.7 million for fiscal 2004 compared to $655,000 in fiscal 2003. The increase is related to the acquisitions in the first quarter of fiscal 2004. During the third quarter of fiscal 2004, the Company completed its allocation of the purchase price of the acquisitions, and considered a number of factors in performing this valuation, including a valuation of identifiable intangible assets. As a result, approximately $5.5 million of the purchase price was assigned to amortizable intangible assets related to contractually based customer relationships, acquired databases of potential associates and technology related to the policyIQ software. These intangibles will be amortized over one to five years. The Company is also amortizing intangible assets related to the SCM acquisition through fiscal 2006. In the prior year, amortization expense related primarily to the amortization of the SCM intangible assets.

Depreciation expense increased from $1.3 million for the year ended May 31, 2003 to $1.9 million for the year ended May 31, 2004. This increase reflects the impact of depreciation related to the acquisitions, the other offices opened since the beginning of fiscal 2004, a full year of depreciation of assets acquired during fiscal 2003 and our incremental investment in information technology.

Interest Income. During fiscal 2004, the Company generated interest income of $593,000 compared to interest income of $1.1 million in the year ended May 31, 2003. The decrease in interest income is a combination of a lower average cash balance available for investment in fiscal 2004 (as a result of the use of approximately $30 million for the acquisitions in the first quarter of fiscal 2004) and the lower interest rates available year over year. The Company earned approximately 2.0%, annualized, on its money market, commercial paper and other marketable securities investments during the 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 May 31, 2004, the Company has $18 million of government-agency bonds with remaining maturity dates in excess of one year from the balance sheet date. The bonds mature through 2006 and have coupon rates ranging from 2.0% to 2.9%. These investments have been classified in the May 31, 2004 consolidated balance sheet as “held-to-maturity” securities.

Income Taxes. The provision for income taxes increased from $8.7 million for the year ended May 31, 2003 to $16.8 million for the year ended May 31, 2004 as a result of the increase in the Company’s pre-tax income. The effective tax rate in fiscal 2003 was 41.0% compared with 40.8% in fiscal 2004. Periodically, the Company reviews the components of both book and taxable income to analyze the adequacy of the provision. There can be no assurance that the Company’s effective tax rate will not increase in the future.

Year Ended May 31, 2003 Compared to Year Ended May 31, 2002

Revenue. Revenue increased $20.3 million or 11.2% to $202.0 million for the year ended May 31, 2003 from $181.7 million for the year ended May 31, 2002. Growth in revenues resulted primarily from continued expansion of our scope of services resulting in more billable hours for our associates and an improvement in rate per hour. Our scope of services expanded by increasing market awareness of our ability to provide information technology, human capital and Sarbanes-related services. We also added SCM operations. These measures partially offset the effects of the negative economy experienced in fiscal 2003. To a lesser extent, revenue benefited from the fifty-third week of activity in fiscal 2003. Overall bill rates improved by 4.9% compared to the prior year average bill rate. The increase in revenue for the year is also reflected by the increase in the number of associates on assignment from 1,060 at the end of fiscal 2002 to 1,175 at the end of fiscal 2003. We operated 55 offices during the final quarter of fiscal 2003, compared to 47 offices in the last quarter of fiscal 2002.

Direct Cost of Services. Direct cost of services increased $12.9 million or 11.9% to $121.6 million for the year ended May 31, 2003 from $108.7 million for the year ended May 31, 2002. The increase in direct cost of services was attributable to the previously described expansion of the scope of services resulting in more chargeable hours for our associates at higher average pay rates. Overall, the average pay rate per hour increased 6.8% year-over-year. The number of associates on assignment increased from 1,060 at the end of fiscal 2002 to 1,175 at the end of fiscal 2003. The direct cost of services increased as a percentage of revenue from 59.8% for fiscal year 2002 to 60.2% for fiscal year 2003. The net increase primarily reflects the incremental increase in pay rate per hour compared to bill rate per hour and the decrease in conversion fees as a percentage of revenues in fiscal 2003 year compared to the prior year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $7.6 million or 14.9% to $58.2 million for the year ended May 31, 2003 from $50.7 million for the year ended May 31, 2002. This increase was primarily attributable to the increase in management and administrative headcount from 312 at the end of fiscal 2002 to 344 at the end of fiscal 2003, causing an increase in compensation and related benefits expense. The increase in headcount arose from the addition of internal personnel of SCM, the incremental hiring for the seven additional offices opened during fiscal 2003, as well as the full year of operation for those offices opened in fiscal 2002. The Company also continued throughout fiscal 2003 the advertising campaign in targeted business publications begun in the fourth quarter of fiscal 2002. The increase was also attributable to an increase in occupancy costs from the addition of the new offices, an increase in bonus expense from the Company's improved revenue results and an increase in insurance costs. Selling, general and administrative expenses increased as a percentage of revenue from 27.9% for the year ended May 31, 2002 to 28.8% for the year ended May 31, 2003. This percentage increase resulted from the aforementioned increase in salary expense and related benefits, occupancy expenses and national advertising expenses.

Amortization and Depreciation Expenses. Amortization of intangible assets increased from $125,000 for the year ended May 31, 2002 to $655,000 for the year ended May 31, 2003. The increase is attributable to the amortization of intangible assets in the current year related to the Company's acquisition of SCM, as well as the purchase of a United Kingdom ("UK") practice in fiscal 2002. The Company recognized approximately $356,000 in amortization expense on non-compete agreements and candidate, prospect and client databases related to the SCM acquisition and $193,000 related to the UK practice. In the prior year, amortization expense related only to the amortization of the non-compete agreement entered into when the Company acquired Resources Connection LLC ("LLC") on April 1, 1999. The balance of $106,000 remaining for that non-compete agreement at the end of fiscal 2002 was fully amortized in fiscal 2003.

Depreciation expense increased from $1.2 million for the year ended May 31, 2002 to $1.3 million for the year ended May 31, 2003. This increase reflects the investment in our UK offices as well as the SCM acquisition, the other offices opened since the beginning of fiscal 2003, a full year of depreciation of assets acquired during fiscal 2002 and our investment in information technology.

Interest Income. During fiscal 2003, the Company generated interest income of $1.1 million compared to interest income of $1.2 million in the year ended May 31, 2002. Although the average cash balance for investment increased from fiscal 2002 to fiscal 2003, the lower interest rates year-over-year more than offset the cash balance increase. The Company earned approximately 1.7%, annualized, on its money market, commercial paper and other marketable securities investments during the 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 May 31, 2003, the Company has $20 million of government-agency bonds with remaining maturity dates in excess of one year from the balance sheet date. The bonds mature through 2005 and have coupon rates ranging from 1.8% to 3.0%. These investments have been classified in the May 31, 2003 consolidated balance sheet as "held-to-maturity" securities.

Income Taxes. The provision for income taxes decreased from $8.9 million for the year ended May 31, 2002 to $8.7 million for the year ended May 31, 2003 due to the decrease in income from operations in fiscal 2003. The decrease in income from operations was offset by the increase in the effective tax rate in fiscal 2003 to 41.0% from approximately 40.0% in fiscal 2002. The increase is primarily due to an increase in the federal statutory rate of 1.0%, which resulted from applying a 35.0% federal tax rate in fiscal 2003 as opposed to a 34.0% tax rate as in prior years.

Quarterly Results

The following table sets forth our unaudited quarterly consolidated statements of income data for each of the eight quarters in the two-year period ended May 31, 2004. In the opinion of management, this data has been prepared on a basis substantially consistent with our audited consolidated financial statements appearing elsewhere in this document, and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the data. The quarterly data should be read together with our consolidated financial statements and related notes appearing elsewhere in this document. The operating results are not necessarily indicative of the results to be expected in any future period.

	Quarters Ended							
	May 31, 2004	Feb. 29, 2004	Nov. 30, 2003	Aug. 31, 2003	May 31, 2003	Feb. 28, 2003	Nov. 30, 2002	Aug. 31, 2002
	(in thousands, except net income per common share)							
CONSOLIDATED STATEMENTS OF INCOME DATA (unaudited):								
Revenue	$ 107,018	$ 87,758	$ 74,016	$ 59,541	$ 59,048	$ 49,237	$ 50,209	$ 43,528
Direct cost of services	64,042	54,353	45,420	36,055	35,285	30,153	29,909	26,301
Gross profit	42,976	33,405	28,596	23,486	23,763	19,084	20,300	17,227
Selling, general and administrative expenses	23,877	22,724	20,471	17,229	16,534	14,170	14,526	13,018
Amortization of intangible assets	504	514	392	306	200	298	126	31
Depreciation expense	580	507	433	387	335	328	312	315
Income from operations	18,015	9,660	7,300	5,564	6,694	4,288	5,336	3,863
Interest income	(171)	(147)	(103)	(172)	(238)	(231)	(270)	(338)
Income before provision for income taxes	18,186	9,807	7,403	5,736	6,932	4,519	5,606	4,201
Provision for income taxes	7,456	4,021	2,998	2,323	2,843	1,853	2,298	1,722
Net income	$ 10,730	$ 5,786	$ 4,405	$ 3,413	$ 4,089	$ 2,666	$ 3,308	$ 2,479
Net income per common share (1):								
Basic	$ 0.46	$ 0.25	$ 0.20	$ 0.15	$ 0.19	$ 0.12	$ 0.15	$ 0.11
Diluted	$ 0.43	$ 0.24	$ 0.19	$ 0.15	$ 0.18	$ 0.12	$ 0.15	$ 0.11

(1) Net income per common share calculations for each of the quarters were based upon the weighted average number of shares outstanding for each period, and the sum of the quarters may not necessarily be equal to the full year net income per common share amount.

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

Liquidity and Capital Resources

Our primary source of liquidity is cash provided by our operations and, to the extent necessary, available commitments under our revolving line of credit. We have generated positive cash flows from operations since inception, and we continued to do so during the year ended May 31, 2004.

At May 31, 2004, the Company had operating leases, primarily for office premises, expiring at various dates. At May 31, 2004, the Company had no significant capital leases. Future minimum rental commitments under operating leases are as follows:

		Payments due by period (amounts in thousands)			
Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	$23,961	$ 6,343	$ 8,694	$ 4,193	$ 4,731

The Company's original August 2001 $10.0 million unsecured revolving credit facility with Bank of America was replaced effective March 26, 2004 with a new $10.0 million unsecured revolving credit facility with substantially the same terms (the "Credit Agreement"). The Credit Agreement allows the Company to choose the interest rate applicable to advances. The interest rate options are Bank of America's prime rate, a London Inter-Bank Offered ("LIBOR") rate plus 1.5% or Bank of America's Grand Cayman Banking Center ("IBOR") rate plus 1.5%. Interest, if any, is payable monthly. There is an annual facility fee of 0.25% payable on the unutilized portion of the Credit Agreement. The Credit Agreement expires December 1, 2005. As of May 31, 2004 and 2003, the Company had no outstanding borrowings under the revolving credit facility and is in compliance with all covenants included in the Credit Agreement.

Net cash provided by operating activities totaled $20.6 million in fiscal 2004 compared to $17.0 million in fiscal 2003. Cash provided by operations resulted primarily from the net income of the Company of $24.3 million. Another of the components of the net increase in cash provided by operations was the increase in the accrual for management incentive bonus as well as the profit sharing plan for associates as of May 31, 2004 compared to May 31, 2003, reflecting the Company's revenue increase. The increase in the number of associates on assignment at the end of fiscal 2004 as compared to fiscal 2003 also caused the Company's accrued salary obligation to increase. The Company also experienced an increase in the volume of stock option exercises during the year, resulting in a $6.8 million tax benefit. These favorable operating cash flow activities were offset by the increase in the Company's accounts receivable balance in fiscal 2004 of $25.8 million, triggered by the Company's higher revenue in the fourth quarter of fiscal 2004 as compared to the fourth quarter of fiscal 2003. The Company had $51.8 million in cash and cash equivalents and $18 million of long-term marketable securities at May 31, 2004.

Net cash used in investing activities totaled $32.2 million for fiscal 2004 compared to $4.7 million for fiscal 2003. The Company used approximately $31.0 million in cash in the first, second and fourth quarters of fiscal 2004 to complete the acquisitions as well as related transaction costs. In addition, the Company spent approximately $3.2 million on leasehold improvements, office equipment and technology upgrades in fiscal 2004, up from $675,000 in the previous fiscal year.

Net cash provided by financing activities totaled $15.1 million for the year ended May 31, 2004 compared to $4.2 million for the year ended May 31, 2003. The increased volume of stock option exercises in fiscal 2004 caused this change.

Our ongoing operations and anticipated growth in the geographic markets we currently serve will require us to continue to make 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 to secure additional debt financing. The sale of additional equity securities or the addition of new debt financing could result in additional dilution to our stockholders. We may not be able to obtain 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.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Recent Accounting Pronouncements

In December 2003, the SEC issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition". SAB No. 104 revises and rescinds certain sections of SAB No. 101 in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. Accordingly there is no impact to our results of operations, financial position or cash flows as a result of the issuance of SAB No. 104.

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 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 adoption of SFAS No. 132 did not have an effect on our consolidated financial statements.

In December 2003, the FASB issued Interpretation No. 46R ("FIN 46R"), a revision to FIN 46, "Consolidation of Variable Interest Entities". FIN 46R clarifies some of the provisions of FIN 46 and exempts certain entities from its requirements. FIN 46R is effective at the end of the first interim period ending after March 15, 2004. Entities that have adopted FIN 46 prior to this effective date can continue to apply the provisions of FIN 46 until the effective date of FIN 46R. The adoption of FIN 46R did not have an effect on our consolidated financial statements.

RISK FACTORS

You should carefully consider the risks described below before making a decision to buy shares of our common stock. The order of the risks is not an indication of their relative weight or importance. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties, including those risks set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations", may also adversely impact and impair our business. If any of the following risks actually occur, our business could be harmed. In that case, the trading price of our common stock could decline, and you might lose all or part of your investment. When determining whether to buy our common stock, you should also refer to the other information in this Report on Form 10-K, including our financial statements and the related notes.

This Report on Form 10-K contains forward-looking statements based on our current expectations, assumptions, estimates and projections about our industry and us. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements as a result of certain factors, as more fully described in this section and elsewhere in this Report on Form 10-K. We do not undertake to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

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 given some economic recovery, 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.

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

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

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

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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 may 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 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 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. New impediments to our ability to secure projects from clients may develop over time, such as the increasing use by large clients of companies that manage their relationship with service providers.

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

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

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

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

We grew rapidly from our inception in 1996 until 2001 by opening new offices and by increasing the volume of services we provide through existing offices. We experienced a decline in revenue in fiscal 2002 to $181.7 million, but then rebounded in fiscal 2003 to revenue of $202.0 million. Although revenue increased in fiscal 2004, as compared to fiscal 2003, by 37% (excluding the acquisitions), 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. 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 occur, there could be a material negative effect on our operating results. These risks and expenses include:

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

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

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

- diversion of management’s attention from other business concerns;
- failure to integrate the acquired company with our existing business;
- failure to motivate, or loss of, key employees from either our existing business or the acquired business;
- potential impairment of relationships with our employees and clients;
- additional operating expenses not offset by additional revenue;
- incurrence of significant non-recurring charges;

- incurrence of additional debt with restrictive covenants or other limitations;
- dilution of our stock as a result of issuing equity securities; and
- assumption of liabilities of the acquired company.

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

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

Our quarterly financial results may be subject to significant fluctuations 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 Resources 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.

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

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

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

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

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

We are aware of other companies using the name “Resources Connection” or some variation thereof. The existence of these companies may confuse our clients, thereby impeding our ability to build our brand identity. To avoid confusion, we may consider changing the name of the operating company and that could entail risks.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. At the end of fiscal 2004, we had approximately $69.8 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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

RESOURCES CONNECTION, INC.

FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
Resources Connection, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Resources Connection, Inc. and its subsidiaries at May 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Orange County, California
July 30, 2004

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RESOURCES CONNECTION, INC.

CONSOLIDATED BALANCE SHEETS

	May 31, 2004	May 31, 2003
	(amounts in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,839	$ 48,078
Trade accounts receivable, net of allowance for doubtful accounts of $3,262 and $2,388 as of May 31, 2004 and 2003, respectively	59,766	26,635
Prepaid expenses and other current assets	3,955	2,035
Prepaid income taxes	535	1,774
Deferred income taxes	3,674	2,596
Total current assets	119,769	81,118
Investments in marketable securities	18,000	20,000
Goodwill	76,048	47,876
Intangible assets, net	5,005	1,203
Property and equipment, net	6,655	4,341
Other assets	786	1,399
Total assets	$ 226,263	$ 155,937
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 13,700	$ 2,784
Accrued salaries and related obligations	27,059	17,899
Other liabilities	482	258
Total current liabilities	41,241	20,941
Deferred income taxes	4,688	1,465
Total liabilities	45,929	22,406
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.01 par value, 5,000 shares authorized; zero shares issued and outstanding		
Common stock, $0.01 par value, 35,000 shares authorized; 23,355 and 22,251 shares issued, and 23,201 and 22,110 shares outstanding as of May 31, 2004 and 2003, respectively	233	222
Additional paid-in capital	108,849	86,676
Deferred stock compensation	(168)	(480)
Accumulated other comprehensive gain	514	293
Notes receivable from stockholders	-	(55)
Retained earnings	71,210	46,876
Treasury stock at cost, 154 and 141 shares at May 31, 2004 and 2003, respectively	(304)	(1)
Total stockholders' equity	180,334	133,531
Total liabilities and stockholders' equity	$ 226,263	$ 155,937

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF INCOME

	For The Years Ended May 31,		
	2004	2003	2002
	(amounts in thousands, except net income per common share)		
Revenue	$ 328,333	$ 202,022	$ 181,677
Direct cost of services	199,870	121,648	108,715
Gross profit	128,463	80,374	72,962
Selling, general and administrative expenses	84,301	58,248	50,688
Amortization of intangible assets	1,716	655	125
Depreciation expense	1,907	1,290	1,180
Income from operations	40,539	20,181	20,969
Interest income	(593)	(1,077)	(1,183)
Income before provision for income taxes	41,132	21,258	22,152
Provision for income taxes	16,798	8,716	8,861
Net income	$ 24,334	$ 12,542	$ 13,291
Net income per common share			
Basic	$ 1.06	$ 0.57	$ 0.63
Diluted	$ 1.00	$ 0.55	$ 0.58
Weighted average common shares outstanding			
Basic	22,992	21,849	21,241
Diluted	24,390	22,896	22,862

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands)

	Common Stock		Additional Paid-In Capital	Deferred Stock Compensation	Treasury Stock		Notes Receivable From Stockholders	Accumulated Other Comprehensive (Loss) Gain	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			Shares	Amount				
Balances as of May 31, 2001	20,735	$ 207	$ 66,507	$ (1,507)	48	$ (1)	$ (164)	$ (53)	$ 21,043	$ 86,032
Secondary offering of common stock	230	2	4,552							4,554
Costs related to stock offering			(793)							(793)
Exercise of stock options	599	6	3,859							3,865
Tax benefit from exercise of stock options			4,169							4,169
Issuance of common stock under Employee Stock Purchase Plan	97	1	1,895							1,896
Repurchase of treasury stock					53					
Reversal of deferred compensation for restricted stock and stock options forfeited			(198)	198						
Amortization of deferred stock compensation				400						400
Repayment of notes receivable from shareholders							55			55
Comprehensive Income:										
Currency translation adjustment, net of tax								2		2
Net income for the year ended May 31, 2002									13,291	13,291
Total comprehensive income								2	13,291	13,293
Balances as of May 31, 2002	21,661	$ 216	$ 79,991	$ (909)	101	$ (1)	$ (109)	$ (51)	$ 34,334	$ 113,471
Exercise of stock options	388	4	2,342							2,346
Tax benefit from exercise of stock options			1,152							1,152
Issuance of common stock under Employee Stock Purchase Plan	86	1	1,800							1,801
Issuance of common stock for acquisition of The Procurement Centre	116	1	1,503							1,504
Repurchase of treasury stock					40					
Reversal of deferred compensation for restricted stock and stock options forfeited			(112)	112						
Amortization of deferred stock compensation				317						317
Repayment of notes receivable from shareholders							54			54
Comprehensive Income:										
Currency translation adjustment, net of tax								344		344
Net income for the year ended May 31, 2003									12,542	12,542
Total comprehensive income								344	12,542	12,886

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	Common Stock		Additional Paid-In Capital	Deferred Stock Compensation	Treasury Stock		Notes Receivable From Stockholders	Accumulated Other Comprehensive (Loss) Gain	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			Shares	Amount				
Balances as of May 31, 2003	22,251	$ 222	$ 86,676	$ (480)	141	$ (1)	$ (55)	$ 293	$ 46,876	$ 133,531
Exercise of stock options	1,034	10	13,953							13,963
Tax benefit from exercise of stock options			6,840							6,840
Issuance of common stock under Employee Stock Purchase Plan	70	1	1,394							1,395
Repurchase of treasury stock					13	(303)				(303)
Reversal of deferred compensation for restricted stock and stock options forfeited			(14)	14						
Amortization of deferred stock compensation				298						298
Repayment of notes receivable from shareholders							55			55
Comprehensive Income:										
Currency translation adjustment, net of tax								221		221
Net income for the year ended May 31, 2004									24,334	24,334
Total comprehensive income								221	24,334	24,555
Balances as of May 31, 2004	23,355	$ 233	$ 108,849	$ (168)	154	$ (304)	$ -	$ 514	$ 71,210	$ 180,334

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended May 31,		
	2004	2003	2002
		(Amounts in thousands)	
Cash flows from operating activities:			
Net income	$ 24,334	$ 12,542	$ 13,291
Adjustments to reconcile net income to net cash provided by operating activities :			
Depreciation and amortization	3,623	1,945	1,305
Amortization of deferred stock compensation	298	317	400
Bad debt expense	1,910	907	1,007
Tax benefit from exercise of stock options	6,840	1,152	4,169
Deferred income taxes provision (benefit)	214	555	(2)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Trade accounts receivable	(25,762)	(5,938)	2,940
Prepaid expenses and other current assets	(1,807)	(316)	(754)
Prepaid income taxes	1,239	1,731	(4,587)
Other assets	613	(102)	(36)
Accounts payable and accrued expenses	(287)	92	(78)
Accrued salaries and related obligations	9,160	4,546	(1,894)
Other liabilities	224	(432)	(433)
Net cash provided by operating activities	20,599	16,999	15,328
Cash flows from investing activities:			
Redemption of marketable securities	50,000	18,000	22,000
Purchase of marketable securities	(48,000)	(14,000)	(46,000)
Purchase of Executive Temporary Management BV, net of cash acquired of $1.9 million and including transaction costs	(27,893)	-	-
Purchase of policyIQ, including transaction costs	(2,056)	-	-
Purchase of Deloitte Re:sources Pty, including transaction costs	(1,078)	-	-
Purchase of The Procurement Centre, net of cash acquired and including transaction costs	-	(8,003)	-
Purchase of Ernst & Young United Kingdom subsidiary, including transaction costs	-	-	(1,683)
Purchases of property and equipment	(3,180)	(675)	(1,980)
Net cash used in investing activities	(32,207)	(4,678)	(27,663)
Cash flows from financing activities:			
Proceeds from exercise of stock options	13,963	2,346	3,865
Stock offering costs	-	-	(793)
Proceeds from issuance of common stock	-	-	4,554
Proceeds from issuance of common stock under Employee Stock Purchase Plan	1,395	1,801	1,896
Repurchase of treasury stock	(303)	-	-
Repayment of notes receivable from stockholders	55	54	55
Net cash provided by financing activities	15,110	4,201	9,577
Effect of exchange rate changes on cash	259	(189)	-
Net increase (decrease) in cash	3,761	16,333	(2,758)
Cash and cash equivalents at beginning of period	48,078	31,745	34,503
Cash and cash equivalents at end of period	$ 51,839	$ 48,078	$ 31,745

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

RESOURCES CONNECTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Amounts in thousands, except per share amounts

1. Description of the Company and its Business

Resources Connection, Inc. ("Resources Connection") was incorporated on November 16, 1998. Resources Connection provides professional services to a variety of industries and enterprises through its subsidiaries, Resources Connection LLC ("LLC"), RECN of Texas, LP ("Texas"), Resources Audit Solutions, LLC ("RAS"), and seven 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, human resources and supply chain management services on a project basis. RAS commenced business formally in June 2002 and assists its clients with their internal audit and risk assessment needs on a project or co-sourced basis. The Company has offices in the United States, Australia, Canada, Hong Kong, Japan, the Netherlands, Taiwan and the United Kingdom. Resources Connection is a Delaware corporation. LLC and RAS are Delaware limited liability companies. Texas is a limited partnership formed in Texas.

The Company's fiscal year consists of 52 or 53 weeks, ending on the Saturday in May nearest the last day of May in each year. For convenience, all references herein to years or periods are to years or periods ended May 31. The fiscal years ended May 31, 2004 and 2002 consist of 52 weeks. The fiscal year ended May 31, 2003 consists of 53 weeks.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

Revenues are recognized and billed when the Company's professionals deliver services. Conversion fees are recognized when one of the Company's professionals accepts an offer of permanent employment from a client. Conversion fees were 0.6%, 1.0% and 1.6% of revenue for the years ended May 31, 2004, 2003 and 2002, respectively. All costs of compensating the Company's professionals are the responsibility of the Company and are included in direct cost of services.

Client Reimbursements of "Out-of-Pocket" Expenses

The Company recognizes all reimbursements received from clients for "out-of-pocket" expenses as revenue and all expenses as direct cost of services.

Foreign Currency Translation

The financial statements of subsidiaries outside the United States are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at current exchange rates, income and expense items are translated at average exchange rates prevailing during the period and the related translation adjustments are recorded as a component of comprehensive income or loss within stockholders' equity. Gains and losses from foreign currency transactions are included in the consolidated statements of income.

Per Share Information

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," which establishes standards for the computation, presentation and disclosure requirements for basic and diluted earnings per share for entities with publicly held common shares and potential common shares. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding. In computing diluted earnings per share, the weighted average number of shares outstanding is adjusted to reflect the effect of potentially dilutive securities.

Potential common shares totaling 436, 1,518 and 827 were not included in the diluted earnings per share amounts for the years ended May 31, 2004, 2003 and 2002, respectively, as their effect would have been anti-dilutive. For the years ended May 31, 2004, 2003 and 2002, potentially dilutive securities consisted solely of stock options and resulted in potential common shares of 1,398, 1,047 and 1,621, respectively.

Cash and Cash Equivalents

The Company considers cash on hand, deposits in banks, and short-term investments purchased with an original maturity date of three months or less to be cash and cash equivalents. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents approximate the fair values due to the short maturities of these instruments.

Investments in Marketable Securities

The Company accounts for its marketable securities in accordance with 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. These securities consist of commercial paper and government-agency bonds. Cost approximates market for these securities. All held-to-maturity securities have remaining maturity dates greater than one year.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets that range from three to ten years. Leasehold improvements are amortized using the straight-line method over the estimated useful life of the asset or the term of the lease, whichever is shorter. Costs for normal repairs and maintenance are expensed to operations as incurred, while renewals and major refurbishments are capitalized.

Assessments of whether there has been a permanent impairment in the value of property and equipment are periodically performed by considering factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. Management believes no permanent impairment has occurred.

Intangible Assets

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and other intangible assets with indefinite lives are not subject to amortization but are tested for impairment annually or whenever events or changes in circumstances indicate that the asset might be impaired. The Company performed their annual impairment analysis as of May 31, 2004 and will continue to test for impairment annually as of May 31. No impairment was indicated. Other intangible assets with finite lives are subject to amortization, and impairment reviews are performed in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." No event has occurred that would trigger an impairment assessment of the Company's intangible assets with finite lives.

Refer to Note 5 for further description of the Company's intangible assets.

Stock-Based Compensation

On December 31, 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock Based Compensation Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock Based Compensation". SFAS No. 148 requires more prominent and frequent disclosures about the effects of stock-based compensation, which the Company has adopted as of the year ended May 31, 2003. The Company will continue to account for its stock-based compensation according to the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

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

	2004	2003	2002
Net income, as reported	$24,334	$12,542	$13,291
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(6,190)	(8,275)	(5,117)
Pro forma net income	$18,144	$ 4,267	$ 8,174
Net income per share:			
Basic-as reported	$ 1.06	$ 0.57	$ 0.63
Basic-pro forma	$ 0.79	$ 0.20	$ 0.38
Diluted-as reported	$ 1.00	$ 0.55	$ 0.58
Diluted-pro forma	$ 0.74	$ 0.19	$ 0.36

For purposes of computing the pro forma amounts, the fair value of stock-based compensation was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2004	2003	2002
Weighted-average expected life (years)	5	5	5
Annual dividend per share	None	None	None
Risk-free interest rate	2.48%-3.38%	2.68%-4.08%	1.69%-5.11%
Expected volatility	50%	65%	75%

Because the determination of the fair value of all options granted includes the factors described in the preceding paragraph, and because additional option grants are expected to be made each year, the above pro forma disclosures are not likely to be representative of the pro forma effect on reported net income for future years.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under this method, deferred income taxes are recognized for the estimated tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized when, in management's opinion, it is more likely than not that some portion of the deferred tax assets will not be realized. The provision for income taxes represents current taxes payable net of the change during the period in deferred tax assets and liabilities.

Recent Accounting Pronouncements

In December 2003, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition". SAB No. 104 revises and rescinds certain sections of SAB No. 101 in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. Accordingly there is no impact to our results of operations, financial position or cash flows as a result of the issuance of SAB No. 104.

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 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 adoption of SFAS No. 132 did not have an effect on our consolidated financial statements.

In December 2003, the FASB issued Interpretation No. 46R ("FIN 46R"), a revision to FIN 46, "Consolidation of Variable Interest Entities". FIN 46R clarifies some of the provisions of FIN 46 and exempts certain entities from its requirements. FIN 46R is effective at the end of the first interim period ending after March 15, 2004. Entities that have adopted FIN 46 prior to this effective date can continue to apply the provisions of FIN 46 until the effective date of FIN 46R. The adoption of FIN 46R did not have an effect on our consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current year presentation.

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. Acquisitions

On July 15, 2003, the Company acquired the outstanding capital shares of Ernst & Young's subsidiary, Executive Temporary Management BV in the Netherlands for $29.8 million, including $1.6 million in transaction costs directly attributable to the acquisition. 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").

The acquisition was accounted for as a purchase under SFAS No. 141, "Business Combinations". In accordance with SFAS No. 141, the Company allocated the purchase price based on the fair value of the assets acquired and liabilities assumed with the residual recorded as goodwill. The total intangible assets acquired include approximately $25.7 million for goodwill, $3.7 million for customer relationships and $1.0 million for a customer database. The customer relationships are being amortized over four years and the customer database over five years. The goodwill is not deductible for tax purposes.

The components of the purchase price and allocation of the acquisition of RC.NL are as follows:

Assets acquired	$ 11,526
Liabilities assumed	(12,060)
Identifiable intangible assets acquired	4,668
Goodwill	25,659
Total	$ 29,793

The following table presents revenue, income before provision for income taxes, net income and diluted earnings per share for the years ended May 31, 2004 and 2003 as if the acquisition of RC.NL had occurred on June 1, 2003 and 2002, respectively:

	Resources Connection Year Ended May 31, 2004	RC.NL Pre-Acquisition Results	Pro Forma Adjustments	Pro Forma Combined
Revenue	$ 328,333	$ 5,233	$ -	$ 333,566
Income before provision for income taxes	$ 41,132	$ (82)	$ (117)	$ 40,933
Net income	$ 24,334	$ (53)	$ (70)	$ 24,211
Diluted earnings per share	$ 1.00	-	-	$ 0.99

	Resources Connection Year Ended May 31, 2003	RC.NL Pre-Acquisition Results	Pro Forma Adjustments	Pro Forma Combined
Revenue	$ 202,022	$ 58,693	$ -	$ 260,715
Income before provision for income taxes	$ 21,258	$ (417)	$ (1,476)	$ 19,365
Net income	$ 12,542	$ (265)	$ (871)	$ 11,406
Diluted earnings per share	$ 0.55	-	-	$ 0.50

The pro forma adjustments reflect estimated amortization on intangible assets acquired, reduction in interest income from the use of cash in the purchase and the related impact on income taxes.

On July 30, 2003, the Company acquired policyIQ, a web-based solution for internal controls documentation and content management, for $2 million and a provision for contingent payments based on future sales volume (approximately $374 in fiscal 2004).

On June 1, 2003, the Company acquired the operations of Deloitte Re:sources Pty Ltd. operating in Australia from Deloitte Touche Tohmatsu Australia for $1 million. This operation has been renamed Resources Connection Australia Pty. Ltd.

On October 11, 2002, the Company completed the acquisition of the assets of The Procurement Centre, LLC, a Houston-based provider of supply chain management services to companies on a project basis. This entity now operates as a subsidiary renamed Resources Connection Supply Chain Management (“SCM”). The purchase price of the acquisition was approximately $9.4 million, consisting of approximately $7.8 million in cash, $125 in transaction costs directly attributable to the acquisition and 116 shares of common stock with a fair value of approximately $1.5 million. The cash consideration included $400 paid during the third quarter of fiscal 2003 upon SCM meeting certain revenue goals. SCM contributed $6.7 million to revenue from the date of acquisition through May 31, 2003.

The acquisition was accounted for as a purchase under FASB No. 141. In accordance with SFAS No. 141, the Company allocated the purchase price based on the fair value of the assets acquired and liabilities assumed with the residual recorded as goodwill. During the third quarter of 2003, the Company, with the assistance of an independent appraiser, completed the identification of and allocation to intangible assets acquired in the transaction. The Company assigned approximately $1.4 million of the purchase price to amortizable intangibles, consisting of contractually based customer relationships, non-competition agreements and the acquired database of potential SCM associates. These intangibles are being amortized over one to four years. Approximately $6.6 million was allocated to goodwill. The goodwill is expected to be deductible for tax purposes. Pro forma disclosures related to this acquisition are not presented due to immateriality.

4. Property and Equipment

Property and equipment consist of the following at May 31:

	2004	2003
Computers and equipment	$ 6,683	$ 3,954
Furniture	2,317	1,906
Leasehold improvements	2,635	1,732
	11,635	7,592
Less accumulated depreciation and amortization	(4,980)	(3,251)
	$ 6,655	$ 4,341

5. Intangible Assets and Goodwill

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

	As of May 31, 2004			As of May 31, 2003		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships (2-4 years)	$ 4,849	$ (1,170)	$ 3,679	$ 1,050	$ (171)	$ 879
Associate and customer database (1-5 years)	1,734	(878)	856	580	(318)	262
Non-compete agreements (1-4 years)	630	(630)	—	630	(568)	62
Developed technology (3 years)	520	(132)	388	—	—	—
Trade name and trademark (indefinite life)	82	—	82	—	—	—
Total intangible assets	$ 7,815	$ (2,810)	$ 5,005	$ 2,260	$ (1,057)	$ 1,203
Goodwill (indefinite life)	$80,665	$ (4,617)	$76,048	$52,493	$ (4,617)	$47,876

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The Company recorded amortization expense for the years ended May 31, 2004, 2003 and 2002 of $1,716, $655 and $125, respectively. Estimated intangible asset amortization expense (based on existing intangible assets) for the years ending May 31, 2005, 2006, 2007, 2008 and 2009 is $1,647, $1,613, $1,269, $362 and $34, respectively.

	Gross	Accumulated Amortization	Net
Goodwill, as of May 31, 2003	$52,493	$ (4,617)	$47,876
Acquisitions	28,220	—	28,220
Impact of foreign currency exchange rate changes	(48)	—	(48)
Goodwill, as of May 31, 2004	$80,665	$ (4,617)	$76,048

6. Income Taxes

The following table represents the current and deferred income tax provision for federal and state income taxes attributable to operations for the years ended May 31:

	2004	2003	2002
Current			
Federal	$ 13,684	$7,084	$7,038
State	2,900	1,077	1,825
	16,584	8,161	8,863
Deferred			
Federal	152	269	(157)
State	62	286	155
	214	555	(2)
	$ 16,798	$8,716	$8,861

The components of the provision for deferred income taxes are as follows for the years ended May 31:

	2004	2003	2002
Allowance for doubtful accounts	$ (350)	$ (107)	$ 116
Property and equipment	23	(62)	(1)
Goodwill and non-compete agreement	1,296	1,286	1,180
Accrued liabilities	(432)	(23)	(116)
Deferred compensation	—	357	(357)
Foreign items	(106)	(761)	(889)
State taxes	(217)	(135)	65
Net deferred income tax provision	$ 214	$ 555	$ (2)

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The provision for income taxes from operations differs from the amount that would result from applying the federal statutory rate as follows for the years ended May 31:

	2004	2003	2002
Statutory tax rate	35.0%	35.0%	34.0%
State taxes, net of federal benefit	4.7%	4.2%	6.9%
Other, net	1.1%	1.8%	(0.9)%
Effective tax rate	40.8%	41.0%	40.0%

The components of the net deferred tax asset consist of the following as of May 31:

	2004	2003
Deferred tax assets:		
Allowance for doubtful accounts	$ 1,374	$ 1,024
Accrued expenses	1,828	1,396
Net operating losses	81	-
Foreign items	1,756	1,650
State taxes	391	176
	5,430	4,246
Deferred tax liabilities:		
Property and equipment	(101)	(78)
Goodwill and non-compete agreement	(6,343)	(3,037)
	(6,444)	(3,115)
Net deferred tax (liability) asset	$(1,014)	$ 1,131

Prepaid income taxes were $535 and $1,774 at May 31, 2004 and 2003, respectively.

The tax benefit associated with the exercise of nonqualified stock options and the disqualifying dispositions by employees of incentive stock options and shares issued under the Company’s Employee Stock Purchase Plan reduced income taxes payable by $6,840 and $1,152 for the years ended May 31, 2004 and 2003, respectively. Such benefit is reflected as additional paid-in capital.

Realization on the deferred tax assets is dependent upon generating sufficient taxable income. Although realization is not assured for the deferred tax assets, management believes that it is more likely than not that they will be realized through future taxable earnings or alternative tax strategies.

Deferred income taxes have not been provided on the undistributed earnings of the Company’s foreign subsidiaries as of May 31, 2004 since these amounts are intended to be permanently reinvested in foreign operations. It is not practicable to calculate the deferred taxes associated with these earnings; however, foreign tax credits would likely be available to reduce federal income taxes in the event of distribution.

As a result of the policyIQ acquisition, the Company acquired net operating loss carryforwards. At May 31, 2004, the Company had federal and state net operating loss carryforwards of approximately $201 and $246, respectively, which will begin to expire in 2021 through 2023. Utilization of net operating loss carryforwards are subject to the “change of ownership” provisions under Section 382 of the Internal Revenue Code. The amount of such annual limitation is approximately $89.

7. Accrued Salaries and Related Obligations

Accrued salaries and related obligations consist of the following as of May 31:

	2004	2003
Accrued salaries, bonuses and related obligations	$ 23,641	$ 15,394
Accrued vacation	3,418	2,505
	$ 27,059	$ 17,899

8. Revolving Credit Agreement

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

The Credit Agreement contains certain financial and other restrictive covenants. These covenants include, but are not limited to, maintaining defined levels of profitability. The Company was in compliance with these covenants as of May 31, 2004.

9. Concentrations of Credit Risk

The Company maintains cash and cash equivalent balances and long-term marketable securities with a high credit quality financial institution. At times, such balances are in excess of federally insured limits.

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of trade receivables. However, concentrations of credit risk are limited due to the large number of customers comprising the Company's customer base and their dispersion across different business and geographic areas. The Company monitors its exposure to credit losses and maintains an allowance for anticipated losses. To reduce credit risk, the Company performs credit checks on certain customers. No single customer accounted for more than 6%, 4% and 5% of revenue for the years ended May 31, 2004, 2003 and 2002, respectively.

10. Stockholders' Equity

The Company has authorized for issuance 35,000 shares of common stock with a $0.01 par value. At May 31, 2004 and 2003, there were 23,355 and 22,251 issued shares of common stock, respectively, all of which are voting.

The Company has authorized for issuance 5,000 shares of preferred stock with a $0.01 par value. The board of directors has the authority to issue preferred stock in one or more series and to determine the related rights and preferences. No shares of preferred stock were outstanding at May 31, 2004 and 2003.

On May 10, 2002, the Company's board of directors adopted a stockholder rights plan, pursuant to which a dividend of one preferred stock purchase right (the "rights") was declared for each share of common stock outstanding at the close of business on May 28, 2002. The rights are not exercisable until the Distribution Date, which, unless extended by the Board, is 10 days after a person or group acquires 15% of the voting power of the common stock of the Company or announces a tender offer that could result in a person or group owning 15% or more of the voting power of the common stock of the Company (such person or group, an "Acquiring Person"). Each right, should it become exercisable, will entitle the owner to buy 1/100th of a share of a new series of the Company's Junior Participating Preferred Stock at a purchase price of $120, subject to certain adjustments.

In the event a person or group becomes an Acquiring Person without the approval of the board of directors, each right will entitle the owner, other than the Acquiring Person, to buy at the right's then current exercise price, a number of shares of common stock with a market value equal to twice the exercise price of the rights. In addition, if, after a person or group becomes an Acquiring Person, the Company was to be acquired by merger, stockholders with unexercised rights could purchase common stock of the acquiring company with a value of twice the exercise price of the rights. The board of directors may redeem the rights for $0.001 per right at any time prior to and including the tenth business day after the first public announcement that a person has become an Acquiring Person. Unless earlier redeemed, exchanged or extended by the board, the rights will expire on May 28, 2012.

On August 13, 2001, the SEC declared the Company's registration statement effective for a secondary offering of the Company's common stock. Selling stockholders sold 3,333, shares of the Company's common stock in the offering, but the Company did not receive any of the proceeds from the sale of those shares. The Company sold 200 shares in the offering for approximately $3.2 million (after underwriting discounts, commissions and other transaction-related expenses). On September 5, 2001, the underwriters exercised their over-allotment option for an additional 500 shares from the selling stockholders, but the Company did not receive any of the proceeds from the sale of those shares. The Company sold an additional 30 shares in the over-allotment for approximately $600.

During fiscal 2004, 2003 and 2002, pursuant to the terms of the 1998 Employee Stock Purchase Plan (the "plan"), the Company reacquired 13, 40 and 53 shares, respectively, of its common stock from former employees. None of the shares reacquired in 2004, 2003 or 2002 have subsequently been resold. Pursuant to the plan, the Company resold 75 shares of common stock in fiscal 2001 for an aggregate purchase price of approximately $513 to certain employees of the Company, of which $164 was financed by the Company in exchange for promissory notes from the employees, bearing interest at 4.0% with annual aggregate principal payments of approximately $55 through June 30, 2003. The notes were repaid during fiscal 2004.

11. Benefit Plan

The Company established a defined contribution 401(k) plan ("the plan") on April 1, 1999, which covers all employees who have completed three months of service and are age 21 or older. Participants may contribute up to 15% of their annual salary up to the maximum amount allowed by statute. As defined in the plan agreement, the Company may make matching contributions in such amount, if any, up to a maximum of 6% of individual employees' annual salaries. The Company, in its sole discretion, determines the matching contribution made from year to year. To receive matching contributions, the employee must be employed on the last day of the fiscal year. For the years ended May 31, 2004, 2003 and 2002, the Company contributed approximately $916, $806 and $751 respectively, to the plan.

12. Supplemental Disclosure of Cash Flow Information

For the years ended May 31:

	2004	2003	2002
Income taxes paid	$8,506	$5,302	$9,725
Non-cash investing and financing activities:			
Deferred stock compensation	$ (14)	$ (112)	$ (198)
Issuance of common stock for acquisition of SCM	$ —	$1,504	$ —

13. Commitments and Contingencies

Lease Commitments

At May 31, 2004, the Company had operating leases, primarily for office premises, expiring at various dates. At May 31, 2004, the Company had no significant capital leases. Future minimum rental commitments under operating leases are as follows:

Years Ending May 31:	
2005	$ 6,343
2006	5,091
2007	3,603
2008	2,311
2009	1,882
Thereafter	4,731
Total	$ 23,961

Rent expense for the years ended May 31, 2004, 2003 and 2002 totaled $7,049, $5,433 and $4,706, respectively.

Employment Agreements

The Company entered into a new employment agreement in fiscal 2004 with its Chief Executive Officer. This agreement is effective through 2009. It provides Mr. Murray with a specified severance amount depending on whether his separation from the company is with or without good cause as defined in the agreement. The Company also has employment agreements with certain key members of management through 2005. These agreements provide those employees with a specified severance amount depending on whether the employee is terminated with or without good cause as defined in their applicable agreements.

Legal Proceedings

Certain claims and lawsuits arising in the ordinary course of business have been filed or are pending against the Company. In the opinion of management, all such matters if disposed of unfavorably would not have a material adverse effect on the Company's financial position, cash flows or results of operations.

14. Stock Based Compensation Plans

1998 Restricted Stock Purchase Plan

Under the terms of the Resources Connection, Inc. 1998 Restricted Stock Purchase Plan (the "Purchase Plan"), a total of 5,630 shares of common stock may be issued. The Purchase Plan gives the administrator authority to grant awards to management-based employees at a price of at least 85% of the fair market value of the stock (100% of the fair market value of the stock in the case of an individual possessing more than 10% of the total outstanding stock of the Company) on the date the related award was granted. An award under the Purchase Plan gives the participant the right to acquire a specified number of shares of common stock, at a specified price, for a limited period of time. Awards under the Purchase Plan are generally nontransferable. The stock purchased upon exercise of an award generally vests over five years. If the participant's employment terminates before the participant's stock is fully vested, the Company may repurchase the unvested stock for the price initially paid by the participant. The administrator may accelerate the vesting of stock acquired under the Purchase Plan in the event of a change in control.

From December 1998 through February 1999, 5,630 awards were granted and exercised pursuant to the Purchase Plan at a price of $0.01 per share. During the year ended May 31, 2001, repurchased unvested shares of common stock were sold to eligible employees pursuant to the terms of the 1998 Restricted Stock Purchase Plan. The per share weighted average grant date fair values of the unvested awards granted for the year ended May 31, 2001 was $4.00 per share. The amount of unearned compensation recognized for stock re-sold under the Purchase Plan was $178, $181 and $182 for the years ended May 31, 2004, 2003 and 2002, respectively. The Company does not anticipate granting any additional awards under the Purchase Plan.

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 1,200 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 the lesser of 85% of the fair market value of common stock at the beginning or end of each semi-annual stock purchase period. The Company issued 70, 86 and 97 shares of common stock pursuant to this plan during the years ended May 31, 2004, 2003 and 2002, respectively and there are 947 shares of common stock unissued as of May 31, 2004.

1999 Long-Term Incentive Plan

Under the terms of the Resources Connection, Inc. 1999 Long-Term Incentive Plan (the "Incentive Plan"), the Company is authorized to grant restricted stock awards, incentive stock options ("ISOs"), nonqualified stock options ("NQSOs"), stock appreciation rights and bonus awards to directors, officers, key employees, consultants and other agents. Under the terms of the Incentive Plan, the option price for the ISOs and NQSOs shall not be less than the fair market value of the shares of the Company's stock on the date of the grant. For ISOs, 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. Management's estimate of the fair market value of the shares of the Company's common stock prior to December 15, 2000 was based upon a valuation of the Company obtained from an independent appraisal firm. The maximum number of shares of common stock available for grant is 6,540. Stock options granted under the Incentive Plan become exercisable generally over periods of one to five years and expire within a period of not more than ten years from the date of grant. There were 994 options exercisable at May 31, 2004 at a weighted average exercise price of $16.23 per share, 1,046 options exercisable at May 31, 2003 at a weighted average exercise price of $14.82 per share, and 507 options exercisable at May 31, 2002 at a weighted-average exercise price of $10.13 per share.

A summary of the option activity under the Incentive Plan is as follows:

	Number of Shares Under Option	Weighted Average Exercise Price	Weighted Average Fair Value
Options outstanding at May 31, 2001	3,052	$ 8.87	—
Granted, at fair market value	1,535	$ 26.18	$ 26.18
Exercised	(599)	$ 6.45	—
Forfeited	(460)	$ 13.88	—
Options outstanding at May 31, 2002	3,528	$ 16.16	—
Granted, at fair market value	1,141	$ 17.64	$ 17.64
Exercised	(388)	$ 6.69	—
Forfeited	(524)	$ 18.65	—
Options outstanding at May 31, 2003	3,757	$ 17.23	—
Granted, at fair market value	2,063	$ 28.70	$ 28.70
Exercised	(1,034)	$ 13.50	—
Forfeited	(545)	$ 21.68	—
Options outstanding at May 31, 2004	4,241	$ 23.12	—

The following table summarizes significant option groups outstanding as of May 31, 2004 and related weighted average price and life information:

	Options Outstanding			Options Exercisable	
Range of Exercise Price Per Share	Number Outstanding at May 31, 2004	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Number Exercisable at May 31, 2004	Weighted Average Exercise Price
$3.00 to $6.11	417	$ 4.21	5.79	348	$ 4.03
$12.00 to $18.48	900	$ 15.77	7.81	254	$ 16.62
$20.34 to $25.43	1,094	$ 24.03	8.64	163	$ 24.19
$27.56 to $28.66	878	$ 28.34	8.55	228	$ 28.65
$30.76 to $43.30	952	$ 32.49	9.76	1	$ 43.30
	4,241	$ 23.12	8.41	994	$ 16.23

During the years ended May 31, 2004, 2003 and 2002, the Company recorded compensation expense related to options granted to employees of $120, $136 and $218, respectively, representing the difference between the deemed fair market value of the common stock, as determined for accounting purposes, and the exercise price of the options at the date of grant. During the year ended May 31, 2003, there were forfeitures of $112 of the deferred compensation related to options granted to employees as these employees terminated prior to vesting. There were no forfeitures during the fiscal year ended 2004. The Company amortizes deferred compensation over the related service period of the underlying options.

15. Segment Information and Enterprise Reporting

No single customer accounted for more than 6%, 4% and 5% of revenue for the years ended May 31, 2004, 2003 and 2002, respectively.

In accordance with the requirements of SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” the Company discloses information regarding operations outside of the United States. The Company operates as one segment. The accounting policies for the domestic and international operations are the same as those described in Note 1 to the financial statements on this Annual Report on Form 10-K. Summarized information regarding the Company's domestic and international operations is shown in the following table for the year ended May 31, 2004. Amounts related to international operations for the years ended May 31, 2003 and 2002 were not material.

	Revenue for the Year Ended May 31, 2004	Long-Lived Assets as of May 31, 2004(1)
United States	$ 265,262	$ 4,890
The Netherlands	43,847	1,202
Other	19,224	563
Total	$ 328,333	$ 6,655

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

16. Related Party Transactions

On May 1, 1999, a member of management received a loan of $200 from the Company. The loan is interest free and matures on April 1, 2007. At May 31, 2003, $150 of the receivable was outstanding. The loan was repaid during fiscal 2004.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of fiscal year 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 May 31, 2004 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There was no change in the Company's internal controls over financial reporting during the Company's fiscal year ended May 31, 2004 that materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers and Directors

Reference is made to the information regarding directors appearing under the caption "ELECTION OF DIRECTORS" and to the information appearing under the caption "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE", in each case in the Company's proxy statement related to its 2004 Annual Meeting of Stockholders, which information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the caption "EXECUTIVE COMPENSATION AND RELATED INFORMATION" in the Company's proxy statement related to its 2004 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing under the caption "SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS" in the proxy statement related to the Company's 2004 Annual Meeting of Stockholders is incorporated herein by reference.

The following table highlights the Company's equity compensation plans:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	4,241,430	$23.12	1,298,141 (1)
Equity compensation plans not approved by security holders (2)	—	—	—

(1) Includes 947,534 shares available for issuance under the Company's Employee Stock Purchase Plan and 154,000 shares available for restricted stock awards under the Company's 1998 Employee Stock Purchase Plan. We do not intend to grant any further awards pursuant to the 1998 Employee Stock Purchase Plan.

(2) The Company does not have any equity compensation plans that have not been approved by security holders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing under the caption "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" in the proxy statement related to the Company's 2004 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information appearing under the caption "PRINCIPAL ACCOUNTANT FEES AND SERVICES" in the proxy statement related to the Company's 2004 Annual Meeting of Stockholders is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Report documents:

1. Financial Statements
2. Financial Statement Schedule

These documents are included in the response to Item 8 of this report on Form 10-K. See the index on page 34.

3. Exhibits. The Exhibits filed as part of this Report on Form 10-K are listed in Item 15(c) of this Annual Report on Form 10-K.

(b) Reports on Form 8-K:

The registrant filed or furnished the following reports on Form 8-K during the fourth quarter of fiscal 2004:

Form 8-K (item 12), furnished on March 25, 2004, covering a press release announcing the Company's financial results for the quarter ended February 29, 2004.

(c) Exhibits.

The following exhibits are filed as part of, or are incorporated by reference in, this Report on Form 10-K:

EXHIBITS TO FORM 10-K

Exhibit Number	Description of Document
3.1	Second Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 2000).
3.2	Amended and Restated Bylaws, as amended (incorporated by reference to Exhibit 3.4 to the Registrant's Registration Statement on Form S-1 filed on September 1, 2000 (File No. 333-45000)).
4.2	Stockholders Agreement, dated December 11, 2000, between Resources Connection, Inc. and certain stockholders of Resources Connection, Inc. (incorporated by reference to Exhibit 4.2 to the Registrant's Amendment No. 7 to the Registrant's Registration Statement on Form S-1 filed on December 12, 2000 (File No. 333-45000)).
4.3	Specimen Stock Certificate (incorporated by reference to Exhibit 4.3 to the Registrant's Amendment No. 7 to the Registrant's Registration Statement on Form S-1 filed on December 12, 2000 (File No. 333-45000)).
10.1	Resources Connection, Inc. 1998 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 filed on September 1, 2000 (File No. 333-45000)).
10.2	Resources Connection, Inc. 1999 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 filed on September 1, 2000 (File No. 333-45000)).

Exhibit Number	Description of Document
10.4	Employment Agreement, dated April 1, 1999, between Resources Connection, Inc. and Stephen J. Giusto (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 filed on September 1, 2000 (File No. 333-45000)).
10.5	Employment Agreement, dated April 1, 1999, between Resources Connection, Inc. and Karen M. Ferguson (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 filed on September 1, 2000 (File No. 333-45000)).
10.12	Resources Connection, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.11 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed on November 13, 2000 (File No. 333-45000)).
10.16	Agreement of Lease, dated October 23, 2000, between 500-512 Seventh Avenue Limited Partnership and Resources Connection LLC (incorporated by reference to Exhibit 10.16 to the Registrant's Registration Statement on Form S-1 filed on July 17, 2001 (File No. 333-65272)).
10.17	Lease, dated January 1, 2001, between One Town Center Associates and Resources Connection LLC (incorporated by reference to Exhibit 10.17 to the Registrant's Registration Statement on Form S-1 filed on July 17, 2001 (File No. 333-65272)).
10.18	Loan Agreement, dated March 26, 2004 by and among Resources Connection, Inc., Resources Connection LLC and Bank of America, N.A.*
10.19	Employment Agreement, dated April 1, 2004, between Resources Connection, Inc. and Donald B. Murray.*
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
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

(d) Financial Statement Schedule:

The financial statement schedule for Resources Connection, Inc. is included in the response to Item 8 of this Report on Form 10-K. See the index on page 34.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

RESOURCES CONNECTION, INC.

By: /S/ STEPHEN J. GIUSTO

Stephen J. Giusto
Chief Financial Officer

DATE **August 10, 2004**

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/S/ DONALD B. MURRAY **Donald B. Murray**	Chief Executive Officer, President and Director (Principal Executive Officer)	August 10, 2004
/S/ STEPHEN J. GIUSTO **Stephen J. Giusto**	Chief Financial Officer, Executive Vice President of Corporate Development, Secretary and Director (Principal Financial Officer and Principal Accounting Officer)	August 10, 2004
/S/ KAREN M. FERGUSON **Karen M. Ferguson**	Executive Vice President and Director	August 10, 2004
/S/ NEIL DIMICK **Neil Dimick**	Director	August 10, 2004
/S/ JULIE HILL **Julie Hill**	Director	August 10, 2004
/S/ C. STEPHEN MANSFIELD **C. Stephen Mansfield**	Director	August 10, 2004
/S/ A. ROBERT PISANO **A. Robert Pisano**	Director	August 10, 2004
/S/ GERALD ROSENFELD **Gerald Rosenfeld**	Director	August 10, 2004
/S/ JOHN C. SHAW **John C. Shaw**	Director	August 10, 2004
/S/ JOLENE SYKES **Jolene Sykes**	Director	August 10, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

To the Stockholders and the Board of Directors of
Resources Connection, Inc.

Our audits of the consolidated financial statements referred to in our report dated July 30, 2004 appearing in the 2004 Annual Report to Shareholders of Resources Connection, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/S/ PRICEWATERHOUSECOOPERS LLP

Orange County, California
July 30, 2004

RESOURCES CONNECTION, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

	Beginning Balance	Charged to Operations	Write-offs	Ending Balance
Allowance for Doubtful Accounts for the Years Ended May 31:				
2002	$ 2,450,000	$ 1,007,000	$ (1,300,000)	$ 2,157,000
2003	$ 2,157,000	$ 907,000	$ (676,000)	$ 2,388,000
2004	$ 2,388,000	$ 1,910,000	$ (1,036,000)	$ 3,262,000

Exhibit 10.18

LOAN AGREEMENT

This Agreement dated as of March 26, 2004, is among Bank of America, N.A. (the "Bank"), Resources Connection, Inc. ("Borrower 1") and Resources Connection LLC ("Borrower 2") (Borrower 1 and Borrower 2 are sometimes referred to collectively as the "Borrowers" and individually as the "Borrower").

1. FACILITY NO. 1: LINE OF CREDIT AMOUNT AND TERMS

1.1 Line of Credit Amount.

(a) During the availability period described below, the Bank will provide a line of credit to the Borrowers. The amount of the line of credit (the "Facility No. 1 Commitment") is Ten Million and 00/100 Dollars ($10,000,000.00).

(b) This is a revolving line of credit. During the availability period, the Borrowers may repay principal amounts and reborrow them.

(c) The Borrowers agree not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrowers exceed this limit, the Borrowers will immediately pay the excess to the Bank upon the Bank's demand.

1.2 Availability Period. The line of credit is available between the date of this Agreement and December 1, 2005, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date").

1.3 Repayment Terms.

(a) The Borrowers will pay interest on April 1, 2004, and then on the same day of each month thereafter until payment in full of any principal outstanding under this facility. Any interest period for an optional interest rate (as described below) shall expire no later than the Facility No. 1 Expiration Date.

(b) The Borrowers will repay in full any principal, interest or other charges outstanding under this facility no later than the Facility No. 1 Expiration Date.

1.4 Interest Rate.

(a) The interest rate is a rate per year equal to the Bank's Prime Rate.

(b) The Prime Rate is the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime Rate is set by the Bank based on various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Prime Rate.

1.5 Optional Interest Rates. Instead of the interest rate based on the rate stated in the paragraph entitled "Interest Rate" above, the Borrowers may elect the optional interest rates listed below for this Facility No. 1 during interest periods agreed to by the Bank and the Borrowers. The optional interest rates shall be subject to the terms and conditions described later in this Agreement. Any principal amount bearing interest at an optional rate under this Agreement is referred to as a "Portion." The following optional interest rates are available:

(a) The LIBOR Rate plus 1.5 percentage point(s).

(b) The IBOR Rate plus 1.5 percentage point(s).

1.6 Letters of Credit.

(a) During the availability period, at the request of the Borrowers, the Bank will issue:

(i) Commercial letters of credit with a maximum maturity of one hundred eighty (180) days but not to extend more than one hundred eighty (180) days beyond the Facility No. 1 Expiration Date. Each commercial letter of credit will require drafts payable at sight.

(ii) Standby letters of credit with a maximum maturity of three hundred sixty-five (365) days but not to extend more than three hundred sixty-five (365) days beyond the Facility No. 1 Expiration Date. The standby letters of credit may include a provision providing that the maturity date will be automatically extended each year for an additional year unless the Bank gives written notice to the contrary; provided, however, that each letter of credit must include a final maturity date which will not be subject to automatic extension.

(b) The amount of the letters of credit outstanding at any one time (including the drawn and unreimbursed amounts of the letters of credit) may not exceed Ten Million and 00/100 Dollars ($10,000,000.00).

(c) In calculating the principal amount outstanding under the Facility No. 1 Commitment, the calculation shall include the amount of any letters of credit outstanding, including amounts drawn on any letters of credit and not yet reimbursed.

(d) The Borrowers agree:

(i) Any sum drawn under a letter of credit may, at the option of the Bank, be added to the principal amount outstanding under this Agreement. The amount will bear interest and be due as described elsewhere in this Agreement.

(ii) If there is a default under this Agreement, to immediately prepay and make the Bank whole for any outstanding letters of credit.

(iii) The issuance of any letter of credit and any amendment to a letter of credit is subject to the Bank's written approval and must be in form and content satisfactory to the Bank and in favor of a beneficiary acceptable to the Bank.

(iv) To sign the Bank's form Application and Agreement for Commercial Letter of Credit or Application and Agreement for Standby Letter of Credit, as applicable.

(v) To pay any issuance and/or other fees that the Bank notifies the Borrowers will be charged for issuing and processing letters of credit for the Borrowers.

(vi) To allow the Bank to automatically charge its checking account for applicable fees, discounts, and other charges.

(e) On the Facility No. 1 Expiration Date or as promptly thereafter as may be reasonably practicable, the Borrower shall, under documentation acceptable to the Bank, grant to the Bank a first-priority perfected security interest in cash, cash equivalents, or other collateral of a type and in any amount acceptable to the Bank, to secure the Borrower's obligations in respect of any outstanding letters of credit.

2. OPTIONAL INTEREST RATES

2.1 Optional Rates. Each optional interest rate is a rate per year. Interest will be paid on April 1, 2004, and then on the same day of each month thereafter until payment in full of any principal outstanding under this facility. No Portion will be converted to a different interest rate during the applicable interest period. Upon the occurrence of an event of default under this Agreement, the Bank may terminate the availability of optional interest rates for interest periods commencing after the default occurs. At the end of each interest period, the interest rate will revert to the rate stated in the paragraph(s) entitled "Interest Rate" above, unless the Borrowers have designated another optional interest rate for the Portion.

2.2 LIBOR Rate. The election of LIBOR Rates shall be subject to the following terms and requirements:

(a) The interest period during which the LIBOR Rate will be in effect will be one month, two months, three months, four months, five months or six months. The first day of the interest period must be a day other than a Saturday or a Sunday on which the Bank is open for business in New York and London and dealing in offshore dollars (a "LIBOR Banking Day"). The last day of the interest period and the actual number of days during the interest period will be determined by the Bank using the practices of the London inter-bank market.

(b) Each LIBOR Rate portion will be for an amount not less than Five Hundred Thousand and 00/100 Dollars ($500,000.00).

(c) A LIBOR Rate may be elected only for the entire principal amount outstanding under the applicable facility.

(d) The "LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{(1.00 - \text{Reserve Percentage})}$$

Where,

(i) "London Inter-Bank Offered Rate" means the average per annum interest rate at which U.S. dollar deposits would be offered for the applicable interest period by major banks in the London inter-bank market, as shown on the Telerate Page 3750 (or any successor page) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period. If such rate does not appear on the Telerate Page 3750 (or any successor page), the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which the Bank's London Banking Center is open for business and dealing in offshore dollars.

(ii) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.

(e) The Borrowers shall irrevocably request a LIBOR Rate Portion no later than 12:00 noon Pacific time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.

(f) The Bank will have no obligation to accept an election for a LIBOR Rate Portion if any of the following described events has occurred and is continuing:

(i) Dollar deposits in the principal amount, and for periods equal to the interest period, of a LIBOR Rate Portion are not available in the London inter-bank market; or

(ii) The LIBOR Rate does not accurately reflect the cost of a LIBOR Rate Portion.

(g) Each prepayment of a LIBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement.

(h) The prepayment fee shall be in an amount sufficient to compensate the Bank for any loss, cost or expense incurred by it as a result of the prepayment, including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Portion or from fees payable to terminate the deposits from which such funds were obtained. The Borrowers shall also pay any customary administrative fees charged by the Bank in connection with the foregoing. For purposes of this paragraph, the Bank shall be deemed to have funded each Portion by a matching deposit or other borrowing in the applicable interbank market, whether or not such Portion was in fact so funded.

2.3 IBOR Rate. The election of IBOR Rates shall be subject to the following terms and requirements:

(a) The interest period during which the IBOR Rate will be in effect will be no shorter than thirty (30) days and no longer than six months. The last day of the interest period will be determined by the Bank using the practices of the offshore dollar inter-bank market.

(b) Each IBOR Rate Portion will be for an amount not less than Five Hundred Thousand and 00/100 Dollars ($500,000.00).

(c) The IBOR Rate may be elected only for the entire principal amount outstanding under the applicable facility.

(d) The "IBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

$$\text{IBOR Rate} = \frac{\text{IBOR Base Rate}}{(1.00 - \text{Reserve Percentage})}$$

Where,

(i) "IBOR Base Rate" means the interest rate at which the Bank's Grand Cayman Banking Center, Grand Cayman, British West Indies, would offer U.S. dollar deposits for the applicable interest period to other major banks in the offshore dollar inter-bank market.

(ii) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.

(e) The Bank will have no obligation to accept an election for an IBOR Rate Portion if any of the following described events has occurred and is continuing:

(i) Dollar deposits in the principal amount, and for periods equal to the interest period, of an IBOR Rate Portion are not available in the offshore dollar inter-bank market; or

(ii) the IBOR Rate does not accurately reflect the cost of an IBOR Rate Portion.

(f) Each prepayment of an IBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid, and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement.

(g) The prepayment fee shall be in an amount sufficient to compensate the Bank for any loss, cost or expense incurred by it as a result of the prepayment, including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Portion or from fees payable to terminate the deposits from which such funds were obtained. The Borrowers shall also pay any customary administrative fees charged by the Bank in connection with the foregoing. For purposes of this paragraph, the Bank shall be deemed to have funded each Portion by a matching deposit or other borrowing in the applicable interbank market, whether or not such Portion was in fact so funded.

3. FEES AND EXPENSES

3.1 Fees.

(a) Unused Commitment Fee. The Borrowers agree to pay a fee on any difference between the Facility No. 1 Commitment and the amount of credit they actually use, determined by the average of the daily amount of credit outstanding during the specified period. The fee will be calculated at 0.25% per year. The calculation of credit outstanding shall include the undrawn amount of letters of credit. This fee is due on April 1, 2004, and on the same day of each following quarter until the expiration of the availability period.

(b) Waiver Fee. If the Bank, at its discretion, agrees to waive or amend any terms of this Agreement, the Borrowers will, at the Bank's option, pay the Bank a fee for each waiver or amendment in an amount advised by the Bank at the time the Borrowers request the waiver or amendment. Nothing in this paragraph shall imply that the Bank is obligated to agree to any waiver or amendment requested by the Borrowers. The Bank may impose additional requirements as a condition to any waiver or amendment.

(c) Late Fee. To the extent permitted by law, the Borrowers agree to pay a late fee in an amount not to exceed four percent (4%) of any payment that is more than fifteen (15) days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank's rights with respect to the default.

3.2 Expenses. The Borrowers agree to immediately repay the Bank for expenses that include, but are not limited to, filing, recording and search fees, appraisal fees, title report fees, and documentation fees.

3.3 Reimbursement Costs.

(a) The Borrowers agree to reimburse the Bank for any expenses it incurs in the preparation of this Agreement and any agreement or instrument required by this Agreement. Expenses include, but are not limited to, reasonable attorneys' fees, including any allocated costs of the Bank's in-house counsel to the extent permitted by applicable law.

4. DISBURSEMENTS, PAYMENTS AND COSTS

4.1 Disbursements and Payments.

(a) Each payment by the Borrowers will be made in U.S. Dollars and immediately available funds by direct debit to a deposit account as specified below or, for payments not required to be made by direct debit, by mail to the address shown on the Borrowers' statement or at one of the Bank's banking centers in the United States.

(b) Each disbursement by the Bank and each payment by the Borrowers will be evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrowers to sign one or more promissory notes.

4.2 Requests for Credit; Equal Access by all Borrowers. If there is more than one Borrower, any Borrower (or a person or persons authorized by any one of the Borrowers), acting alone, can borrow up to the full amount of credit provided under this Agreement. Each Borrower will be liable for all extensions of credit made under this Agreement to any other Borrower.

4.3 Telephone and Telefax Authorization.

(a) The Bank may honor telephone or telefax instructions for advances or repayments or for the designation of optional interest rates and telefax requests for the issuance of letters of credit given, or purported to be given, by any one of the individuals authorized to sign loan agreements on behalf of any of the Borrowers, or any other individual designated by any one of such authorized signers.

(b) Advances will be deposited in and repayments will be withdrawn from account number 12330-24344 owned by the Borrowers or such other of the Borrowers' accounts with the Bank as designated in writing by the Borrowers.

(c) The Borrowers will indemnify and hold the Bank harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions the Bank reasonably believes are made by any individual authorized by the Borrowers to give such instructions. This paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

4.4 Direct Debit (Pre-Billing).

(a) The Borrowers agree that the Bank will debit deposit account number 12330-24344 owned by the Borrowers or such other of the Borrowers' accounts with the Bank as designated in writing by the Borrowers (the "Designated Account") on the date each payment of principal and interest and any fees from the Borrowers become due (the "Due Date").

(b) Prior to each Due Date, the Bank will mail to the Borrowers a statement of the amounts that will be due on that Due Date (the "Billed Amount"). The bill will be mailed a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by the Bank and the Borrowers. The calculations in the bill will be made on the assumption that no new extensions of credit or payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate.

(c) The Bank will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date (the "Accrued Amount"). If the Billed Amount debited to the Designated Account differs from the Accrued Amount, the discrepancy will be treated as follows:

(i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrowers will not be in default by reason of any such discrepancy.

(ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

Regardless of any such discrepancy, interest will continue to accrue based on the actual amount of principal outstanding without compounding. The Bank will not pay the Borrowers interest on any overpayment.

(d) The Borrowers will maintain sufficient funds in the Designated Account to cover each debit. If there are insufficient funds in the Designated Account on the date the Bank enters any debit authorized by this Agreement, the Bank may reverse the debit.

4.5 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

4.6 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

4.7 Default Rate. Upon the occurrence of any default under this Agreement, all amounts outstanding under this Agreement, including any interest, fees, or costs which are not paid when due, will at the option of the Bank bear interest at a rate which is 6.0 percentage point(s) higher than the rate of interest otherwise provided under this Agreement. This may result in compounding of interest. This will not constitute a waiver of any default.

4.8 Taxes. If any payments to the Bank under this Agreement are made from outside the United States, the Borrowers will not deduct any foreign taxes from any payments it makes to the Bank. If any such taxes are imposed on any payments made by the Borrowers (including payments under this paragraph), the Borrowers will pay the taxes and will also pay to the Bank, at the time interest is paid, any additional amount which the Bank specifies as necessary to preserve the after-tax yield the Bank would have received if such taxes had not been imposed. The Borrowers will confirm that they have paid the taxes by giving the Bank official tax receipts (or notarized copies) within thirty (30) days after the due date.

5. CONDITIONS

Before the Bank is required to extend any credit to the Borrowers under this Agreement, it must receive any documents and other items it may reasonably require, in form and content acceptable to the Bank, including any items specifically listed below.

5.1 Authorizations. If any Borrower or any guarantor is anything other than a natural person, evidence that the execution, delivery and performance by such Borrower and/or such guarantor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.

5.2 Governing Documents. If required by the Bank, a copy of the Borrowers' organizational documents.

5.3 Guaranties. Guaranties signed by RC Management Group, LLC ("RCMG ") and RECN of Texas, LP ("RECN").

5.4 Payment of Fees. Payment of all fees and other amounts due and owing to the Bank, including without limitation payment of all accrued and unpaid expenses incurred by the Bank as required by the paragraph entitled "Reimbursement Costs."

5.5 Insurance. Evidence of insurance coverage, as required in the "Covenants" section of this Agreement.

6. REPRESENTATIONS AND WARRANTIES

When the Borrowers sign this Agreement, and until the Bank is repaid in full, the Borrowers make the following representations and warranties. Each request for an extension of credit constitutes a renewal of these representations and warranties as of the date of the request:

6.1 Formation. If any Borrower is anything other than a natural person, it is duly formed and existing under the laws of the state or other jurisdiction where organized.

6.2 Authorization. This Agreement, and any instrument or agreement required hereunder, are within each Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.

6.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of each Borrower, enforceable against each Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.

6.4 Good Standing. In each state in which each Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes.

6.5 No Conflicts. This Agreement does not conflict with any law, agreement, or obligation by which any Borrower is bound.

6.6 Financial Information. All financial and other information that has been or will be supplied to the Bank is sufficiently complete to give the Bank accurate knowledge of the Borrowers' (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of any Borrower (or any guarantor).

6.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against any Borrower which, if lost, would be likely to result in a judgement or assessment in excess of One Million and 00/100 Dollars ($1,000,000.00), except as have been disclosed in writing to the Bank.

6.8 Permits, Franchises. Each Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights, copyrights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.

6.9 Other Obligations. No Borrower is in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except as have been disclosed in writing to the Bank.

6.10 Tax Matters. No Borrower has any knowledge of any pending assessments or adjustments of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank.

6.11 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.

6.12 Insurance. Each Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

7. COVENANTS

The Borrowers agree, so long as credit is available under this Agreement and until the Bank is repaid in full:

7.1 Use of Proceeds.

(a) To use the proceeds of Facility No. 1 only for general corporate purposes, including working capital needs, capital expenditures and letters of credit.

7.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time:

(a) Within ninety (90) days of the fiscal year end, the annual financial statements of the Borrowers. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on a consolidated basis. The Form 10-K is a satisfactory form for the annual financial statement.

(b) Within forty-five (45) days of the period's end, quarterly financial statements of the Borrowers. These financial statements may be company-prepared. The statements shall be prepared on a consolidated basis. The Form 10-Q is a satisfactory form for the quarterly financial statement.

(c) Within ninety (90) days of the end of each fiscal year and within forty five (45) days of the end of each quarter, a compliance certificate of each Borrower signed by an authorized financial officer, and setting forth (i) the information and computations (in sufficient detail) to establish that each Borrower is in compliance with all financial covenants at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action the Borrowers are taking and propose to take with respect thereto.

(d) Within one-hundred twenty (120) days after the end of each fiscal year, annual consolidated and consolidating projections for the current fiscal year in quarterly detail for periods through the Expiration Date.

7.3 Current Ratio. To maintain on a consolidated basis a ratio of current assets to current liabilities of at least 1.5:1.0.

"Current liabilities" shall include (a) all obligations classified as current liabilities under generally accepted accounting principles, plus (b) all principal amounts outstanding under revolving lines of credit, whether classified as current or long-term, which are not already included under (a) above.

7.4 Profitability. To maintain on a consolidated basis a positive net income after taxes of at least Six Million and 00/100 ($6,000,000.00) for each annual accounting period. For the purposes of this covenant, nonrecurring, extraordinary income / expenses and extraordinary gains / losses shall be excluded from the calculation.

7.5 Limitation on Losses. Not to incur on a consolidated basis a net loss after taxes in any two (2) consecutive quarterly accounting periods. For the purposes of this covenant, nonrecurring, extraordinary income / expenses and extraordinary gains / losses shall be excluded from the calculation.

7.6 Out of Debt Period. To reduce the amount of advances outstanding under this Agreement to zero for a period of at least thirty (30) consecutive days during each twelve month period consisting of the month most recently ended and the eleven preceding months. For purposes of this paragraph, "Advances" does not include undrawn amounts of outstanding letters of credit.

7.7 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank's written consent. This does not prohibit:

(a) Acquiring goods, supplies, or merchandise on normal trade credit.

(b) Endorsing negotiable instruments received in the usual course of business.

(c) Obtaining surety bonds in the usual course of business.

(d) Liabilities, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.

(e) Additional debts and lease obligations (excluding operating leases) for business purposes which do not exceed a total principal amount of Five Million and 00/100 Dollars ($5,000,000.00) outstanding at any one time.

7.8 Other Liens. Not to create, assume, or allow, any security interest or lien (including judicial liens) on property any Borrower now or later owns (including without limitation the capital stock of Resources Connection.NL BV), except:

(a) Liens and security interests in favor of the Bank.

(b) Liens for taxes not yet due.

(c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.

(d) Additional purchase money security interests in assets acquired after the date of this Agreement, if the total principal amount of debts secured by such liens does not exceed Five Million and 00/100 Dollars ($5,000,000.00) at any one time.

7.9 Maintenance of Assets.

(a) Not to sell, assign, lease, transfer or otherwise dispose of any part of any Borrower’s business or any Borrower’s assets except (i) in the ordinary course of business, or (ii) to a wholly-owned, direct or indirect subsidiary of Borrowers.

(b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.

(c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.

(d) To maintain and preserve all rights, privileges, and franchises the Borrowers now have.

(e) To make any repairs, renewals, or replacements to keep the Borrowers’ properties in good working condition.

7.10 Investments. Not to have any existing, or make any new, investments in any individual or entity, or make any capital contributions or other transfers of assets to any individual or entity, except for:

(a) Existing investments disclosed to the Bank in writing.

(b) Investments in the Borrowers’ current subsidiaries and future subsidiaries.

(c) Investments in any of the following:

(i) certificates of deposit;

(ii) U.S. treasury bills and other obligations of the federal government;

(iii) readily marketable securities (including commercial paper, but excluding restricted stock and stock subject to the provisions of Rule 144 of the Securities and Exchange Commission).

(d) Investments that do not exceed an aggregate initial cost of Five Million and 00/100 Dollars ($5,000,000.00) outstanding at any one time.

7.11 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:

(a) Existing extensions of credit disclosed to the Bank in writing.

(b) Extensions of credit to the Borrowers’ current subsidiaries.

(c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business to non-affiliated entities.

(d) Extensions of credit that do not exceed an aggregate amount of One Million and 00/100 Dollars ($1,000,000.00) outstanding at any one time.

7.12 Change of Management. To retain executive and management personnel with substantially the same qualifications and experience as the executive and management personnel of the Borrowers in office as of the date of this Agreement.

7.13 Change of Ownership. Not to permit Change of Control.

"Change of Control" means (a) the acquisition by any "person" or "group" (as such terms are used in section 13 (d) and 14 (d) of the Securities Exchange Act of 1934, as amended) at any time of beneficial ownership of 40% or more of the outstanding capital stock of Borrower on a fully-diluted basis, or (b) the failure of individuals who are members of the board of directors of Borrower on the date of this Agreement (together with any new or replacement directors whose initial nomination for election was approved by a majority of the directors who were either directors on the date of this Agreement or previously so approved) to constitute a majority of the board of directors of Borrower.

7.14 Additional Negative Covenants. Not to, without the Bank's written consent:

(a) Engage in any business activities substantially different from each Borrower's present business.

7.15 Notices to Bank. To promptly notify the Bank in writing of:

(a) Any lawsuit over One Million and 00/100 Dollars ($1,000,000.00) in excess of any insurance coverage against any Borrower (or any guarantor).

(b) Any substantial dispute between any governmental authority and any Borrower (or any guarantor).

(c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.

(d) Any material adverse change in any Borrower's (or any guarantor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

(e) Any change in any Borrower's name, legal structure, place of business, or chief executive office if such Borrower has more than one place of business.

(f) Any actual contingent liabilities of any Borrower (or any guarantor), and any such contingent liabilities which are reasonably foreseeable, where such liabilities are in excess of Five Million and 00/100 Dollars ($5,000,000.00) in the aggregate.

7.16 Insurance.

(a) General Business Insurance. To maintain insurance as is usual for the business it is in.

7.17 Compliance with Laws. To comply with the laws (including any fictitious or trade name statute), regulations, and orders of any government body with authority over any Borrower's business.

7.18 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

7.19 Books and Records. To maintain adequate books and records.

7.20 Audits. So long as an event of default under this Agreement has occurred and is continuing, to allow the Bank and its agents to inspect each Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of the Borrowers' properties, books or records are in the possession of a third party, the Borrowers authorize that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.

7.21 Cooperation. To take any action reasonably requested by the Bank to carry out the intent of this Agreement.

7.22 Material Subsidiaries. To give the Bank prompt written notice if the Borrower acquires any Material Subsidiary or if any subsidiary becomes a Material Subsidiary. For purposes of this Agreement, a "Material Subsidiary" means a direct or indirect subsidiary of the Borrower that (1) holds assets with a total book value at least equal to five percent (5%) of the book value of all of the Borrower's assets on a consolidated basis or (2) has earned revenues at least equal to five percent (5%) of the Borrower's total revenues on a consolidated basis calculated over the prior four (4) fiscal quarters. If (A) a Material Subsidiary is formed under the laws of a state of the United States and is principally located in the United States (a "Domestic Subsidiary"), the Borrower will promptly cause such subsidiary to guarantee the Borrower's obligations to the Bank under this Agreement, pursuant to documentation in form and substance acceptable to the Bank; or (B) if a Material Subsidiary is not a Domestic Subsidiary, then the Borrower will grant to the Bank, or (if an indirect subsidiary) will promptly cause the shareholder of the subsidiary to grant to the Bank, a security interest in sixty-five percent (65%) of the issued and outstanding capital stock of such subsidiary, pursuant to documentation in form and substance acceptable to the Bank; provided, however, that the Borrower shall not be required to grant to the Bank a security interest in the stock of Resources Connection.NL BV.

7.23 Other Subsidiaries. To give the Bank prompt written notice if the Borrower's subsidiaries, excluding Material Subsidiaries and any other subsidiaries that have guarantied the Borrower's obligations to the Bank or whose capital stock has been pledged to secure the Borrower's obligations to the Bank, in accordance with clauses (A) and (B) below, (1) hold assets with a total book value, on a combined basis, at least equal to ten percent (10%) of the book value of the Borrower's assets on a consolidated basis or (2) have earned, on a combined basis, revenues at least equal to ten percent (10%) of the Borrower's total revenues on a consolidated basis over the prior four (4) fiscal quarters (the "Asset/Revenue Threshold"). Once the Asset/Revenue Threshold is reached, then, with respect to any subsidiary created or acquired thereafter, if (A) a subsidiary is a Domestic Subsidiary, the Borrower will promptly cause such subsidiary to guarantee the Borrower's obligations to the Bank under this Agreement, pursuant to documentation in form and substance acceptable to the Bank; or (B) if a subsidiary is not a Domestic Subsidiary, then the Borrower will grant to the Bank, or (if an indirect subsidiary) will promptly cause the shareholder of the subsidiary to grant to the Bank, a security interest in sixty-five percent (65%) of the issued and outstanding capital stock of such subsidiary, pursuant to documentation in form and substance acceptable to the Bank; provided, however, that the Borrower need not comply with clauses (A) or (B) above if, after reaching the Asset/Revenue Threshold, the Borrower causes an existing Domestic Subsidiary (other than a Material Subsidiary) to guaranty the Borrower's obligations to the Bank in accordance with clause (A) above, such that the amount of assets or revenues described in clauses (1) and (2) above are below the Asset/Revenue Threshold.

8. DEFAULT AND REMEDIES

If any of the following events of default occurs, the Bank may do one or more of the following: declare the Borrowers in default, stop making any additional credit available to the Borrowers, and require the Borrowers to repay their entire debt immediately and without prior notice. If an event which, with notice or the passage of time, will constitute an event of default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under this Agreement. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to any Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

8.1 Failure to Pay. The Borrowers fail to make a payment under this Agreement when due.

8.2 Other Bank Agreements. Any default occurs under any other agreement any Borrower (or any Obligor) or any of the Borrowers' related entities or affiliates has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor, any party pledging collateral to the Bank.

8.3 Cross-default. Any default occurs under any agreement in connection with any credit any Borrower (or any Obligor) or any of the Borrowers' related entities or affiliates has obtained from anyone else or which any Borrower (or any Obligor) or any of the Borrowers' related entities or affiliates has guaranteed.

8.4 False Information. Any Borrower or any Obligor has given the Bank false or misleading information or representations.

8.5 Bankruptcy. Any Borrower, any Obligor, or any general partner of any Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or any Borrower, any Obligor, or any general partner of any Borrower or of any Obligor makes a general assignment for the benefit of creditors.

8.6 Receivers. A receiver or similar official is appointed for a substantial portion of any Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.

8.7 Judgments. Any judgments or arbitration awards are entered against any Borrower or any Obligor, or any Borrower or any Obligor enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of Two Million and 00/100 Dollars ($2,000,000.00) or more in excess of any insurance coverage.

8.8 Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in any Borrower's (or any Obligor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

8.9 Government Action. Any government authority takes action that the Bank believes materially adversely affects any Borrower's or any Obligor's financial condition or ability to repay.

8.10 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.

8.11 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of any Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject any Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of such Borrower:

(a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.

(b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by any Borrower or any ERISA Affiliate.

8.12 Other Breach Under Agreement. A default occurs under any other term or condition of this Agreement not specifically referred to in this Article. This includes any failure or anticipated failure by any Borrower (or any other party named in the Covenants section) to comply with the financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrowers or the Bank.

9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

9.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.

9.2 California Law. This Agreement is governed by California state law.

9.3 Successors and Assigns. This Agreement is binding on the Borrowers' and the Bank's successors and assignees. The Borrowers agree that they may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan, and may exchange financial information about the Borrowers with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrowers.

9.4 Arbitration and Waiver of Jury Trial

(a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a "Claim"). For the purposes of this arbitration provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this agreement.

(b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U. S. Code) (the "Act"). The Act will apply even though this agreement provides that it is governed by the law of a specified state.

(c) Arbitration proceedings will be determined in accordance with the Act, the applicable rules and procedures for the arbitration of disputes of JAMS or any successor thereof ("JAMS"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.

(d) The arbitration shall be administered by JAMS and conducted, unless otherwise required by law, in any U. S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars ($5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.

(e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on JAMS under applicable JAMS rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.

(f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.

(g) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property. In this case, all of the parties to this agreement must consent to submission of the Claim to arbitration. If both parties do not consent to arbitration, the Claim will be resolved as follows: The parties will designate a referee (or a panel of referees) selected under the auspices of JAMS in the same manner as arbitrators are selected in JAMS administered proceedings. The designated referee(s) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee (or presiding referee of the panel) will be an active attorney or a retired judge. The award that results from the decision of the referee(s) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645.

(h) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.

(i) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this agreement to arbitrate, to the extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This provision is a material inducement for the parties entering into this agreement.

9.5 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

9.6 Attorneys' Fees. The Borrowers shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout" or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator. In the event that any case is commenced by or against the Borrowers under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of the Bank's in-house counsel.

9.7 Joint and Several Liability. This paragraph shall apply if two or more Borrowers sign this agreement:

(a) Each Borrower agrees that it is jointly and severally liable to the Bank for the payment of all obligations arising under this Agreement, and that such liability is independent of the obligations of the other Borrower(s). Each obligation, promise, covenant, representation and warranty in this Agreement shall be deemed to have been made by, and be binding upon, each Borrower, unless this Agreement expressly provides otherwise. The Bank may bring an action against any Borrower, whether an action is brought against the other Borrower(s).

(b) Each Borrower agrees that any release which may be given by the Bank to the other Borrower(s) or any guarantor will not release such Borrower from its obligations under this Agreement.

(c) Each Borrower waives any right to assert against the Bank any defense, setoff, counterclaim, or claims which such Borrower may have against the other Borrower(s) or any other party liable to the Bank for the obligations of the Borrowers under this Agreement.

(d) Each Borrower waives any defense by reason of any other Borrower's or any other person's defense, disability, or release from liability. The Bank can exercise its rights against each Borrower even if any other Borrower or any other person no longer is liable because of a statute of limitations or for other reasons.

(e) Each Borrower agrees that it is solely responsible for keeping itself informed as to the financial condition of the other Borrower(s) and of all circumstances which bear upon the risk of nonpayment. Each Borrower waives any right it may have to require the Bank to disclose to such Borrower any information which the Bank may now or hereafter acquire concerning the financial condition of the other Borrower(s).

(f) Each Borrower waives all rights to notices of default or nonperformance by any other Borrower under this Agreement. Each Borrower further waives all rights to notices of the existence or the creation of new indebtedness by any other Borrower and all rights to any other notices to any party liable on any of the credit extended under this Agreement.

(g) The Borrowers represent and warrant to the Bank that each will derive benefit, directly and indirectly, from the collective administration and availability of credit under this Agreement. The Borrowers agree that the Bank will not be required to inquire as to the disposition by any Borrower of funds disbursed in accordance with the terms of this Agreement.

(h) Until all obligations of the Borrowers to the Bank under this Agreement have been paid in full and any commitments of the Bank or facilities provided by the Bank under this Agreement have been terminated, each Borrower (a) waives any right of subrogation, reimbursement, indemnification and contribution (contractual, statutory or otherwise), including without limitation, any claim or right of subrogation under the Bankruptcy Code (Title 11, United States Code) or any successor statute, which such Borrower may now or hereafter have against any other Borrower with respect to the indebtedness incurred under this Agreement; (b) waives any right to enforce any remedy which the Bank now has or may hereafter have against any other Borrower, and waives any benefit of, and any right to participate in, any security now or hereafter held by the Bank.

(i) Each Borrower waives any right to require the Bank to proceed against any other Borrower or any other person; proceed against or exhaust any security; or pursue any other remedy. Further, each Borrower consents to the taking of, or failure to take, any action which might in any manner or to any extent vary the risks of the Borrowers under this Agreement or which, but for this provision, might operate as a discharge of the Borrowers.

9.8 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:

(a) represent the sum of the understandings and agreements between the Bank and the Borrowers concerning this credit;

(b) replace any prior oral or written agreements between the Bank and the Borrowers concerning this credit; and

(c) are intended by the Bank and the Borrowers as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. Any reference in any related document to a “promissory note” or a “note” executed by the Borrowers and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

9.9 Indemnification. The Borrowers will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrowers hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document, or any such credit. This indemnity includes but is not limited to attorneys’ fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrowers’ obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrowers, due and payable immediately without demand.

9.10 Notices. Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrowers, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as the Bank and the Borrowers may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when transmitted, or (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered.

9.11 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

9.12 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

9.13 Prior Agreement Superseded. This Agreement supersedes the Business Loan Agreement and Promissory Note entered into as of August 22, 2001, between the Bank and the Borrowers, and any credit outstanding thereunder shall be deemed to be outstanding under this Agreement.

This Agreement is executed as of the date stated at the top of the first page.

Borrower:

Resources Connection, Inc.

By: ______________________________

(Sgd.) Stephen J. Giusto, EVP & CFO

Bank:

Bank of America, N.A.

By: ______________________________

(Sgd.) Cynthia K. Goodfellow, Vice President

Borrower:

Resources Connection LLC

By: ______________________________

(Sgd.) Stephen J. Giusto, EVP & CFO

Address where notices to the Borrower are to be sent:

695 Town Center Drive, Suite 600
Costa Mesa, CA 92626

Address where notices to the Bank are to be sent:
Orange County Commercial Banking Office #1458
675 Anton Blvd
Costa Mesa, CA 92626-1919

EMPLOYMENT AGREEMENT

This Employment Agreement (this **"Agreement"**) is made as of April 1, 2004, between Donald B. Murray (**"Executive"**) and Resources Connection, Inc. (the **"Company"**).

RECITALS

WHEREAS, the Company, as successor-in-interest to RC Transaction Corp., and Executive are parties to that certain Employment Agreement dated April 1, 1999 (the "**Prior Employment Agreement**"); and

WHEREAS, the Company and Executive mutually desire to replace the Prior Employment Agreement and to continue Executive's employment with the Company in the capacities described below, on the terms and conditions hereinafter set forth.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and promises set forth herein, the parties agree as follows:

1. REPLACEMENT OF PRIOR EMPLOYMENT AGREEMENT

Executive and the Company agree that, effective April 1, 2004, this Agreement replaces and supersedes the Prior Employment Agreement and that the Prior Employment Agreement shall be of no further force or effect.

2. DUTIES

(a) The Company does hereby hire, engage, and employ Executive as the Chairman and Chief Executive Officer of the Company, and Executive does hereby accept and agree to such hiring, engagement, and employment. During the Period of Employment (as defined in Section 3), Executive shall serve the Company in such positions fully, diligently, competently, and in conformity with the provisions of this Agreement, directives of the Board of Directors of the Company (the "**Board**"), and the corporate policies of the Company as they presently exist, and as such policies may be amended, modified, changed, or adopted during the Period of Employment, and Executive shall have duties and authority consistent with Executive's position as Chairman and Chief Executive Officer. If requested by the Company, Executive shall also serve as a member of Board committees without additional compensation.

(b) Throughout the Period of Employment, Executive shall devote his full time, energy, and skill to the performance of his duties for the Company, vacations and other leave authorized under this Agreement excepted. The foregoing notwithstanding, Executive shall be permitted to (i) engage in charitable and community affairs, (ii) act as a director of any corporations or organizations outside the Company, not to exceed five (5) in number, and receive compensation therefor, and (iii) to make investments of any character in any business or businesses and to manage such investments (but not be involved in the day-to-day operations of any such business); provided, in each case, and in the aggregate, that such activities do not interfere with the performance of Executive's duties hereunder or conflict with the provisions of Sections 13 and 14, and further provided that Executive shall not serve as a director of any other publicly traded entity without informing the Compensation Committee of the Board prior to the commencement of such service.

(c) Executive shall exercise due diligence and care in the performance of his duties for and the fulfillment of his obligations to the Company under this Agreement.

(d) During the Period of Employment, the Company shall furnish Executive with office, secretarial and other facilities and services as are reasonably necessary or appropriate for the performance of Executive's duties hereunder and consistent with his position as the President and Chief Executive Officer of the Company.

(e) Executive hereby represents to the Company that the execution and delivery of this Agreement by Executive and the Company and the performance by Executive of Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any employment or other agreement or policy to which Executive is a party or otherwise bound.

3. PERIOD OF EMPLOYMENT

The "**Period of Employment**" shall, unless sooner terminated as provided herein, be five (5) years commencing on April 1, 2004 (the **"Effective Date"**) and ending with the close of business on March 31, 2009. Notwithstanding the preceding sentence, commencing with April 1, 2008 and on each April 1 thereafter (each an "**Extension Date**"), the Period of Employment shall be automatically extended for an additional one-year period, unless the Company or Executive provides the other party hereto sixty (60) days' prior written notice before the next scheduled Extension Date that the Period of Employment shall not be so extended (the "**Non-Extension Notice**"). The term "Period of Employment" shall include any extension that becomes applicable pursuant to the preceding sentence.

4. COMPENSATION

(a) BASE SALARY. During the Period of Employment, the Company shall pay Executive, and Executive agrees to accept from the Company, in payment for his services, a base salary of five-hundred fifty thousand dollars ($550,000) per year ("**Base Salary**"), payable in equal semi-monthly installments or at such other time or times as Executive and the Company shall agree. The Board shall consider not less frequently than annually upward adjustment to Executive's Base Salary. The determination of whether Executive's Base Salary will be upwardly adjusted is within the sole and absolute discretion of the Board. The Board at any time or times may, but shall have no obligation to, supplement Executive's salary by such bonuses and/or other special payments and benefits as the Company in its sole and absolute discretion may determine.

(b) ANNUAL INCENTIVE COMPENSATION. During the Period of Employment, Executive shall be entitled to participate in any annual incentive or bonus plan or plans maintained by the Company for global senior management executives of the Company generally, in accordance with the terms, conditions, and provisions of each such plan as the same may be changed, amended, or terminated, from time to time in the discretion of the Board.

(c) EQUITY COMPENSATION. During the Period of Employment, Executive shall be eligible to receive grants of stock options, restricted stock, stock appreciation rights, or other equity compensation on such terms and conditions as determined from time to time in the discretion of the Board.

(d) CONTRACT REIMBURSEMENT. The Company shall reimburse Executive or directly pay for all reasonable consulting and legal fees and costs attributed to the development, reviews and modifications of this Agreement and associated consulting and legal services in accordance with the provisions of Section 4(d). Such fees and costs shall not exceed five thousand dollars ($5,000). This subsection (d) shall not be deemed to limit any of Executive's rights under Section 25 ("Attorneys' Fees").

5. BENEFITS

(a) HEALTH AND WELFARE. During the Period of Employment, Executive shall be entitled to participate in all health and welfare benefit plans and programs and all retirement, deferred compensation and similar plans and programs generally available to all other global senior management executives of the Company as in effect from time to time, subject to any restrictions specified in such plans and programs.

(b) FRINGE BENEFITS. During the Period of Employment, Executive shall be entitled to participate in all fringe benefit plans and programs generally available to all other global senior management executives of the Company as in effect from time to time, subject to any restrictions specified in such plans and programs.

(c) VACATION AND OTHER LEAVE. Executive shall be entitled to such amounts of paid vacation and other leave, as from time to time may be allowed to the Company's global senior management executives generally or as approved by the Board specifically, with such vacation to be scheduled and taken in accordance with the Company's standard vacation policies applicable to such personnel.

(d) BUSINESS EXPENSES. During the Period of Employment, reasonable business expenses incurred by Executive in the performance of Executive's duties hereunder shall be reimbursed by the Company in accordance with the Company's business expense reimbursement policies as in effect from time to time.

(e) AUTOMOBILE. To the extent provided to other senior officers or executives of the Company, during the Period of Employment, Executive shall be entitled to receive an automobile allowance or a leased automobile and reimbursement for expenses associated with the operation and maintenance of such automobile. The Company will reimburse Executive upon presentation of vouchers and documentation for any such operational and maintenance expenses which are consistent with the usual accounting procedures of the Company.

6. DEATH OR DISABILITY

(a) DEFINITION OF PERMANENTLY DISABLED AND PERMANENT DISABILITY. For purposes of this Agreement, the terms "**Permanently Disabled**" and "**Permanent Disability**" shall mean Executive's inability, because of physical or mental illness or injury, to perform substantially all of his customary duties pursuant to this Agreement, even with a reasonable accommodation, and the continuation of such disabled condition for a period of ninety (90) continuous days, or for not less than one hundred eighty (180) days during any continuous twenty-four (24) month period. Whether Executive is Permanently Disabled shall be certified to the Company by a Qualified Physician (as hereinafter defined). The determination of the individual Qualified Physician shall be binding and conclusive for all purposes. As used herein, the term "**Qualified Physician**" shall mean any medical doctor who is licensed to practice medicine in the State of Executive's residence. Executive and the Company may in any instance, and in lieu of a determination by a Qualified Physician, agree between themselves that Executive is Permanently Disabled. The terms "Permanent Disability" and "Permanently Disabled" as used herein may have meanings different from those used in any disability insurance policy or program maintained by Executive or the Company.

(b) VESTING ON DEATH OR DISABILITY. Upon any termination of the Period of Employment and Executive's employment hereunder by reason of Executive's death or Permanent Disability, as defined in Section 6(a) ("Death or Disability – Definition of Permanently Disabled and Permanent Disability"), any remaining unvested stock options or restricted stock shall thereupon automatically be deemed vested, notwithstanding any other provision of this Agreement.

(c) TERMINATION DUE TO DEATH OR DISABILITY. If Executive dies or becomes Permanently Disabled during the Period of Employment, the Period of Employment and Executive's employment shall automatically cease and terminate as of the date of Executive's death or the date of Permanent Disability (which date shall be determined by the Qualified Physician or by agreement, under Section 6(a) above, and referred to as the **"Disability Date"**), as the case may be. In the event of the termination of the Period of Employment and Executive's employment hereunder due to Executive's death or Permanent Disability, Executive or his estate shall be entitled to receive:

(i) a lump sum cash payment, payable within ten (10) business days after termination of Executive's employment, equal to the sum of (x) any accrued but unpaid Base Salary as of the date of Executive's termination of employment hereunder and (y) any earned but unpaid annual incentive compensation in respect of the most recently completed fiscal year preceding Executive's termination of employment hereunder (the "**Earned/Unpaid Annual Bonus**"); and

(ii) a pro-rated portion of the target annual incentive compensation, if any, that Executive would have been entitled to receive pursuant to Section 4(b) in respect of the fiscal year in which termination of Executive's employment occurs, based upon the percentage of such fiscal year that shall have elapsed through the date of Executive's termination of employment, payable when such annual incentive would otherwise have been payable had Executive's employment not terminated; and

(iii) such Executive benefits described in Sections 4(a), 4(b) and 4(c) ("**Executive Benefits**"), if any, as to which Executive may be entitled under the Executive benefit plans and arrangements of the Company.

Notwithstanding any other provision of this Agreement, following such termination of Executive's employment due to Executive's death or Permanent Disability, except as set forth in Sections 6(b) and 6(c), and except for Executive's rights (if any) under the plans, arrangements and programs referenced in Sections 4(b), 4(c) and 5, Executive shall have no further rights to any compensation or other benefits under this Agreement.

In the event Executive's employment is terminated on account of Executive's Permanent Disability, he shall, so long as his Permanent Disability continues, remain eligible for all benefits provided under any long-term disability programs of the Company in effect at the time of such termination, subject to the terms and conditions of any such programs, as the same may be changed, modified, or terminated for or with respect to all senior management personnel of the Company.

7. TERMINATION BY THE COMPANY

(a) TERMINATION FOR CAUSE. The Company may, by providing written notice to Executive, terminate the Period of Employment and Executive's employment hereunder for Cause at any time. The term "**Cause**" for purpose of this Agreement shall mean:

(i) Executive's conviction of or entrance of a plea of guilty or nolo contendere to a felony; or

(ii) Executive is engaging or has engaged in fraud, material dishonesty, or other acts of willful misconduct in connection with the business affairs of the Company; or

(iii) theft, embezzlement, or other criminal misappropriation of funds by Executive from the Company; or

(iv) Executive's continued and substantial failure to perform the duties hereunder (other than as a result of total or partial incapacity due to physical illness), which failure is not cured within thirty (30) days following written notice by the Company to Executive of such failure; provided, however, that (A) it shall not be Cause if Executive is making good faith efforts to perform duties and (B) this provision shall not apply to any qualitative dissatisfaction by the Company with Executive's performance of his duties hereunder; or

(v) Executive's continued breach of the provisions of Sections 13 and/or 14 of this Agreement, which breach is not cured within thirty (30) days following written notice by the Company to Executive of such breach.

If Executive's employment is terminated for Cause, the termination shall take effect on the effective date (pursuant to Section 27 ("Notices")) of written notice of such termination to Executive.

In the event of the termination of the Period of Employment and Executive's employment hereunder due to a termination by the Company for Cause, then Executive shall be entitled to receive: (i) a lump sum cash payment, payable within ten (10) business days after termination of Executive's employment equal to the sum of (A) accrued but unpaid Base Salary as of the date of termination of Executive's employment hereunder and (B) any Earned/Unpaid Annual Bonus in respect of the most recently completed fiscal year preceding termination of Executive's employment hereunder; and (ii) such Executive Benefits, if any, as to which Executive may be entitled under the Executive benefit plans and arrangements of the Company.

Notwithstanding any other provision of this Agreement, following such termination of Executive's employment due to termination by the Company for Cause, except as set forth in this Section 7(a), and except for Executive's rights (if any) under the plans, arrangements and programs referenced in Sections 4(b), 4(c) and 5, Executive shall have no further rights to any compensation or other benefits under this Agreement.

If the Company attempts to terminate Executive's employment pursuant to this Section 7(a) and it is ultimately determined that the Company lacked Cause, in addition to any other non-contractual remedies Executive may have, the provisions of Section 7(b) ("Termination by the Company-Termination Without Cause") shall apply and Executive shall be entitled to receive the payments called for by Section 7(b) ("Termination by the Company-Termination Without Cause") with interest on any past due payments at the rate of eight percent (8%) per year from the date on which the applicable payment would have been made pursuant to Section 7(b) ("Termination by the Company-Termination Without Cause") plus Executive's costs and expenses (including but not limited to reasonable attorneys' fees) incurred in connection with such dispute.

(b) TERMINATION WITHOUT CAUSE. The Company may, with or without reason, terminate the Period of Employment and Executive's employment hereunder without Cause at any time, by providing Executive written notice of such termination. In the event of the termination of the Period of Employment and Executive's employment hereunder due to a termination by the Company without Cause (other than due to Executive's death or Permanent Disability), then Executive shall be entitled to receive:

(i) a lump sum cash payment, payable within ten (10) business days after termination of Executive's employment equal to the sum of (A) any accrued but unpaid Base Salary as of the date of Executive's termination of employment hereunder, (B) the Earned/Unpaid Annual Bonus, if any, (C) the target annual incentive compensation, if any, that Executive would have been entitled to receive pursuant to Section 4(b) in respect of the fiscal year in which termination of Executive's employment occurs and (D) an amount equal to the product of (x) the Executive's then current Base Salary times (y) the greater of (I) three (3) and (II) the number of years (including fractions thereof) remaining in the Period of Employment as of the date of Executive's termination of employment (determined without regard to Executive's termination of employment and without regard to any further extensions pursuant to Section 3).

(ii) such Executive Benefits, if any, as to which Executive may be entitled under the Executive benefit plans and arrangements of the Company;

(iii) any remaining unvested stock options or restricted stock shall thereupon automatically be deemed vested, notwithstanding any other provision of this Agreement; and

(iv) continued participation in the Company's group health insurance plans at the Company's expense until the earlier of (A) the expiration of the three (3) years from the effective date of termination or (B) Executive's eligibility for participation in the group health plan of a subsequent employer or entity for which Executive provides consulting services;

provided, however, that the amount otherwise payable to Executive pursuant to Section 7(b)(i)(D) shall be reduced by the amount of any cash severance or termination benefits paid to Executive under any other severance plan, severance program or severance arrangement of the Company and its affiliates (but not reduced by any other payment to Executive whatsoever, including (without limitation) any payment by the Company or any affiliate of the Company in consideration of stock or any other property).

Notwithstanding any other provision of this Agreement, following such termination of Executive's employment due to termination by the Company without Cause, except as set forth in this Section 7(b), and except for Executive's rights (if any) under the plans, arrangements and programs referenced in Sections 4(b), 4(c) and 5, Executive shall have no further rights to any compensation or other benefits under this Agreement.

8. TERMINATION BY EXECUTIVE

(a) <u>TERMINATION WITHOUT GOOD REASON</u>. Executive shall have the right to terminate the Period of Employment and Executive's employment hereunder at any time without Good Reason (as defined below) upon thirty (30) days prior written notice of such termination to the Company. Any such termination by the Executive without Good Reason shall be treated for all purposes of this Agreement as a termination by the Company for Cause and the provisions of Section 7(a) shall apply.

(b) <u>TERMINATION WITH GOOD REASON</u>. The Executive may terminate the Period of Employment and resign from employment hereunder for "**Good Reason**":

(i) if the Company requires Executive to relocate his principal office to a location outside of Orange County, California, without Executive's consent; or

(ii) if the Company fails to provide Executive with the compensation and benefits called for by this Agreement; or

(iii) if the Company (A) assigns Executive to a position other than Chief Executive Officer reporting directly to the Board, or substantially diminishes Executive's assignment, duties, responsibilities, or operating authority from those specified in Section 2 ("**Duties**") or (B) employs any person other than Executive who (I) reports directly to the Board or (II) is not subordinate to Executive, *provided*, *however,* this subsection (iii) shall not apply to a circumstance in which, pursuant to and consistent with any applicable statute, regulation, or listing standard, (1) the Company retains an internal auditor with a direct reporting relationship to the Audit Committee or (2) the Board of Directors elects a non-executive Chairman of the Board; or

(iv) if the Company materially breaches any provision of this Agreement;

provided, however, that none of the events described in Subsection 8(b)(ii), 8(b)(iii) or 8(b)(iv) shall constitute Good Reason unless Executive shall have notified the Company in writing describing the events which constitute Good Reason and then only if the Company shall have failed to cure such event within thirty (30) days after the Company's receipt of such written notice.

Any such termination by Executive for Good Reason shall be treated for all purposes of this Agreement as a termination by the Company without Cause and the provisions of Section 7(b) shall apply; provided, however, that if Executive attempts to resign for Good Reason pursuant to this Section 8(b) and it is ultimately determined that Good Reason did not exist, Executive shall be deemed to have resigned from employment without Good Reason and the provisions of Section 8(a) ("Termination Without Good Reason") and, by reference therein, the provisions of Section 7(a) ("Termination For Cause"), shall apply.

9. EXCLUSIVE REMEDY

Executive agrees that the payments contemplated by this Agreement shall constitute the exclusive and sole contract remedy for any termination of his employment and Executive covenants not to assert or pursue any other contractual remedies, at law or in equity, with respect to any termination of employment.

10. EXPIRATION OF PERIOD OF EMPLOYMENT

(a) <u>ELECTION NOT TO EXTEND PERIOD OF EMPLOYMENT</u>. If either party elects not to extend the Period of Employment pursuant to Section 3, unless Executive's employment is earlier terminated pursuant to Sections 6, 7 or 8, termination of Executive's employment hereunder shall be deemed to occur on the close of business on the day immediately preceding the anniversary of the next Extension Date following the delivery of the Non-Extension Notice pursuant to Section 3. If the Company elects not to extend the Period of Employment, Executive's termination will be treated for all purposes under this Agreement as a termination by the Company without Cause under Section 7(b). If Executive elects not to extend the Period of Employment, Executive's termination will be treated for all purposes under this Agreement as a termination by Executive without Good Reason under Section 8(a).

(b) CONTINUED EMPLOYMENT BEYOND EXPIRATION OF PERIOD OF EMPLOYMENT. Unless the parties otherwise agree in writing, continuation of Executive's employment with the Company beyond expiration of the Period of Employment shall be deemed an employment at will and shall not be deemed to extend any of the provisions of this Agreement and Executive's employment may thereafter be terminated at will by either Executive or the Company; provided, however, that the provisions of Sections 13, 14 and 15 shall survive any termination of this Agreement or Executive's termination of employment hereunder.

11. GROSS-UP

Notwithstanding any other provision of this Agreement, if and to the extent any payment made under this Agreement, either alone or in conjunction with other payments Executive has the right to receive either directly or indirectly from the Company, would constitute an "excess parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended, then Executive shall be entitled to receive an excise tax gross-up payment in accordance with Appendix A.

12. MEANS AND EFFECT OF TERMINATION

Any termination of Executive's employment under this Agreement shall be communicated by written notice of termination from the terminating party to the other party. The notice of termination shall indicate the specific provision(s) of this Agreement relied upon in effecting the termination and shall set forth in reasonable detail the facts and circumstances alleged to provide a basis for termination, if any such basis is required by the applicable provision(s) of this Agreement.

13. RESTRICTIVE COVENANTS

Executive acknowledges and recognizes the highly competitive nature of the businesses of the Company and its affiliates and accordingly agrees as follows:

(a) During the Period of Employment, Executive will not, directly or indirectly, (i) engage in any business for Executive's own account that competes with the business of the Company or its affiliates (including, without limitation, businesses which the Company or its affiliates have specific plans to conduct in the future and as to which Executive is aware of such planning), (ii) enter the employ of, or render any services to, any person engaged in any business that competes with the business of the Company or its affiliates, (iii) acquire a financial interest in any person engaged in any business that competes with the business of the Company or its affiliates, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant. During the Period of Employment and for a period of two years thereafter (the "**Restricted Period**"), Executive will not, directly or indirectly, interfere with business relationships (whether formed before or after the date of this Agreement) between the Company or any of its affiliates and customers, suppliers, partners, members or investors of the Company or its affiliates.

(b) Notwithstanding anything to the contrary in this Agreement, Executive may, directly or indirectly, own, solely as an investment, securities of any person engaged in the business of the Company or its affiliates which are publicly traded on a national or regional stock exchange or on an over-the-counter market if Executive (i) is not a controlling person of, or a member of a group which controls, such person and (ii) does not, directly or indirectly, own five percent (5%) or more of any class of securities of such person.

(c) During the Restricted Period, Executive will not, directly or indirectly, (i) solicit or encourage any employee of the Company or its affiliates to leave the employment of the Company or its affiliates.

(d) During the Restricted Period, Executive will not, directly or indirectly, solicit or encourage to cease to work with the Company or its affiliates any consultant then under contract with the Company or its affiliates.

(e) It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 13 to be reasonable, if a final determination is made by an arbitrator or court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any arbitrator or court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

14. CONFIDENTIALITY.

Executive will not at any time (whether during or after his employment with the Company), unless compelled by lawful process, disclose or use for his own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise other than the Company and any of its subsidiaries or affiliates, any trade secrets, or other confidential data or information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, manufacturing processes, financing methods, plans, or the business and affairs of the Company generally, or of any subsidiary or affiliate of the Company; provided that the foregoing shall not apply to information which is not unique to the Company or which is generally known to the industry or the public other than as a result of Executive's breach of this covenant. Executive agrees that upon termination of his employment with the Company for any reason, he will return to the Company immediately all memoranda, books, papers, plans, information, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Company and its affiliates, except that he may retain personal notes, notebooks and diaries that do not contain confidential information of the type described in the preceding sentence. Executive further agrees that he will not retain or use for his account at any time any trade names, trademark or other proprietary business designation used or owned in connection with the business of the Company or its affiliates.

15. SPECIFIC PERFORMANCE

Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 13 or Section 14 would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

16. ASSIGNMENT

This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that, in the event of a merger, consolidation, or transfer or sale of all or substantially all of the assets of the Company with or to any other individual(s) or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder.

17. GOVERNING LAW

This Agreement and the legal relations hereby created between the parties hereto shall be governed by and construed under and in accordance with the internal laws of the State of California, without regard to conflicts of laws principles thereof.

18. ENTIRE AGREEMENT

This Agreement embodies the entire agreement of the parties hereto respecting the matters within its scope. This Agreement supersedes all prior agreements of the parties hereto on the subject matter hereof. Any prior negotiations, correspondence, agreements, proposals, or understandings relating to the subject matter hereof shall be deemed to be merged into this Agreement and to the extent inconsistent herewith, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. There are no representations, warranties, or agreements, whether express or implied, or oral or written, with respect to the subject matter hereof, except as set forth herein. Notwithstanding the foregoing, this Agreement is not intended to modify or extinguish any rights or obligations contained in (i) any Stock Option Agreement between Executive and the Company that was executed prior to the date hereof or (ii) that certain Indemnification Agreement between Executive and the Company dated April 22, 2003.

19. POST-TERMINATION COOPERATION

Executive agrees that following the termination of his employment for any reason, he shall reasonably cooperate at mutually convenient times in the Company's defense against any threatened or pending litigation or in any investigation or proceeding by any governmental agency or body that relates to any events or actions which occurred during the term of Executive's employment with the Company. The Company shall reimburse Executive for reasonable expenses incurred by Executive in connection with such cooperation. Executive shall be compensated for his time at a mutually agreed upon rate for any services other than the provision of information to the Company or its counsel and/or testifying as a witness, which he shall undertake without any compensation.

20. MODIFICATIONS

This Agreement shall not be modified by any oral agreement, either express or implied, and all modifications hereof shall be in writing and signed by the parties hereto.

21. WAIVER

Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times.

22. NUMBER AND GENDER

Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

23. SECTION HEADINGS

The section headings in this Agreement are for the purpose of convenience only and shall not limit or otherwise affect any of the terms hereof.

24. NON-BINDING MEDIATION

Except as provided otherwise herein, before commencing any legal proceeding in any court of law, any controversy arising out of or relating to this Agreement, its enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of its provisions, or any other controversy arising out of Executives employment, including, but not limited to, any state or federal statutory claims, shall first be submitted to non-binding mediation in Orange County, California, before a sole mediator selected from Judicial Arbitration and Mediation Services, Inc., Orange County, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the mediator, such mediator shall be selected from the American Arbitration Association, provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Agreement in a court of law while mediation proceedings are pending.

25. ATTORNEYS' FEES

Executive and the Company agree that in any action arising out of this Agreement, each side shall bear its own attorneys' fees and costs incurred by it or him in connection with such action.

26. SEVERABILITY

In the event that an arbitrator or court of competent jurisdiction determines that any portion of this Agreement is in violation of any statute or public policy, then only the portions of this Agreement which violate such statute or public policy shall be stricken, and all portions of this Agreement which do not violate any statute or public policy shall continue in full force and effect. Furthermore, any order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

27. NOTICES

All notices under this Agreement shall be in writing and shall be either personally delivered or mailed postage prepaid, by certified mail, return receipt requested:

(a) if to the Company:

Attn: Kate W. Duchene, Esq.

With copies to:

David A. Krinsky, Esq.
O'Melveny & Myers LLP
610 Newport Center Drive, Suite 1700
Newport Beach, California 92660

(b) if to Executive:

Donald B. Murray
1019 Emerald Bay
Laguna Beach, CA 92651

With a copy to:

Mike Hood, Esq.
Paul Hastings Janofsky & Walker LLP
695 Town Center Drive, 17th Floor
Costa Mesa, CA 92626

Notice shall be effective when personally delivered, or five (5) business days after being so mailed.

28. COUNTERPARTS

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

29. WITHHOLDING TAXES

The Company may withhold from any amounts payable under this Agreement such federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Company and Executive have executed this Employment Agreement as of the date first above written.

THE COMPANY:

By: /s/ KATE DUCHENE

Name: Kate Duchene

Title: EVP Human Resources

EXECUTIVE:

/s/ DONALD B. MURRAY

Donald B. Murray

<u>APPENDIX A</u>
(Gross-Up Provisions)

(a) In the event it is determined (pursuant to (b) below) or finally determined (as defined in (c)(iii) below) that any payment, distribution, transfer, benefit or other event with respect to the Company or a successor, direct or indirect subsidiary or affiliate of the Company (or any successor of affiliate of any of them, and including any benefit plan of any of them), and arising in connection with an event described in Section 280G(b)(2)(A)(i) of the Internal Revenue Code of 1986, as amended (the "**Code**"), occurring after the Effective Date, to or for the benefit Executive or Executive's dependents, heirs or beneficiaries (whether such payment, distribution, transfer, benefit or other event occurs pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Appendix A) (each a **"Payment"** and collectively the **"Payments"**) is or was subject to the excise tax imposed by Section 4999 of the Code, and any successor provision or any comparable provision of state or local income tax law (collectively, **"Section 4999"**), or any interest, penalty or addition to tax is or was incurred by Executive with respect to such excise tax (such excise tax, together with any such interest, penalty, addition to tax, and costs (including professional fees)) hereinafter collectively referred to as the **"Excise Tax"**), then, within 10 days after such determination or final determination, as the case may be, the Company shall pay to Executive (or to the applicable taxing authority on Executive's behalf) an additional cash payment (hereinafter referred to as the **"Gross-Up Payment"**) equal to the amount such that after payment by Executive of all taxes, interest, penalties, additions to tax and costs imposed or incurred with respect to the Gross-Up Payment (including, without limitation, any income and excise taxes imposed upon the Gross-Up Payment), Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such Payment or Payments. This provision is intended to put Executive in the same position as Executive would have been had no Excise Tax been imposed upon or incurred as a result of any Payment.

(b) Except as provided in subsection (c) below, the determination that a Payment is subject to an Excise Tax shall be made in writing by a certified public accounting firm selected by Executive (**"Executive's Accountant"**). Such determination shall include the amount of the Gross-Up Payment and detailed computations thereof, including any assumptions used in such computations (the written determination of the Executive's Accountant, hereinafter, the **"Executive's Determination"**). The Executive's Determination shall be reviewed on behalf of the Company by a certified public accounting firm selected by the Company (the **"Company's Accountant"**). The Company shall notify Executive within 10 business days after receipt of the Executive's Determination of any disagreement or dispute therewith, and failure to so notify within that period shall be considered an agreement by the Company to make payment as provided in subsection (a) above within 10 days from the expiration of such 10 business-day period. In the event of an objection by the Company to the Executive's Determination, any amount not in dispute shall be paid within 10 days following the 10 business-day period referred to herein, and with respect to the amount in dispute the Executive's Accountant and the Company's Accountant shall jointly select a third nationally recognized certified public accounting firm to resolve the dispute and the decision of such third firm shall be final, binding and conclusive upon the Executive and the Company. In such a case, the third accounting firm's findings shall be deemed the binding determination with respect to the amount in dispute, obligating the Company to make any payment as a result thereof within 10 days following the receipt of such third accounting firm’s determination. All fees and expenses of each of the accounting firms referred to in this Appendix A shall be borne solely by the Company.

(c) (i) Executive shall notify the Company in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the **“Taxing Authority”**) that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than 30 days after Executive receives written notice of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid; provided, however, that failure by Executive to give such notice within such 30-day period shall not result in a waiver or forfeiture of any of Executive’s rights under Section 10 and this Appendix A except to the extent of actual damages suffered by the Company as a result of such failure. Executive shall not pay such claim prior to the expiration of the 15-day period following the date on which Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes, interest, penalties or additions to tax with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such 15-day period (regardless of whether such claim was earlier paid as contemplated by the preceding parenthetical) that it desires to contest such claim (and demonstrates to the reasonable satisfaction of Executive its ability to make the payments to Executive which may ultimately be required under this section before assuming responsibility for the claim), Executive shall:

(A) give the Company any information reasonably requested by the Company relating to such claim;

(B) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company that is reasonably acceptable to Executive;

(C) cooperate with the Company in good faith in order effectively to contest such claim; and

(D) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all attorneys fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Appendix A, and to the extent its actions do not unreasonably interfere with or prejudice Executive’s disputes with the Taxing Authority as to other issues, the Company shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance an amount equal to such payment to Executive, on an interest-free basis, and shall indemnify and hold Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred; and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to Executive and the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and Executive shall be entitled to settle or contest, as the case may be, any other issue.

(ii) If, after receipt by Executive of an amount advanced by the Company pursuant to paragraph (c)(i), Executive receives any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of this Appendix A) promptly pay to the Company an amount equal to such refund (together with any interest paid or credited thereof after taxes applicable thereto), net of any taxes (including, without limitation, any income or excise taxes), interest, penalties or additions to tax and any other costs incurred by Executive in connection with such advance, after giving effect to such repayment. If, after the receipt by Executive of an amount advanced by the Company pursuant to paragraph (c)(i), it is finally determined that Executive is not entitled to any refund with respect to such claim, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall be treated as a Gross-Up Payment and shall offset, to the extent thereof, the amount of any Gross-Up Payment otherwise required to be paid.

(iii) For purposes of this Appendix A, whether the Excise Tax is applicable to a Payment shall be deemed to be "finally determined" upon the earliest of: (A) the expiration of the 15-day period referred to in paragraph (c)(i) above if the Company has not notified Executive that it intends to contest the underlying claim, (B) the expiration of any period following which no right of appeal exists, (C) the date upon which a closing agreement or similar agreement with respect to the claim is executed by Executive and the Taxing Authority (which agreement may be executed only in compliance with this Appendix A),

(D) the receipt by Executive of notice from the Company that it no longer seeks to pursue a contest (which shall be deemed received if the Company does not, within 15 days following receipt of a written inquiry from Executive, affirmatively indicate in writing to Executive that the Company intends to continue to pursue such contest).

(d) As a result of uncertainty in the application of Section 4999 that may exist at the time of any determination that a Gross-Up Payment is due, it may be possible that in making the calculations required to be made hereunder, the parties or their accountants shall determine that a Gross-Up Payment need not be made (or shall make no determination with respect to a Gross-Up Payment) that properly should be made (**"Underpayment"**), or that a Gross-Up Payment not properly needed to be made should be made (**"Overpayment"**). The determination of any Underpayment shall be made using the procedures set forth in paragraph (b) above and shall be paid to Executive as an additional Gross-Up Payment. The Company shall be entitled to use procedures similar to those available to Executive in paragraph (b) to determine the amount of any Overpayment (provided that the Company shall bear all costs of the accountants as provided in paragraph (b)). In the event of a determination that an Overpayment was made, any such Overpayment shall be treated for all purposes as a loan to Executive with interest at the applicable Federal rate provided for in Section 1274(d) of the Code; provided, however, that the amount to be repaid by Executive to the Company shall be subject to reduction to the extent necessary to put Executive in the same after-tax position as if such Overpayment were never made.

LIST OF SUBSIDIARIES

Name: Resources Connection LLC
Jurisdiction of Organization: Delaware
Names under which Resources Connection LLC does business:

Resources Connection LLC
Re:sources Connection LLC
RCTC LLC
RCTC
Resources Connection LLC of Delaware
Resources Connection LLC DBA RCTC
Resources Connection LLC, a limited liability company of Delaware

Name: Resources Connection Canada, Inc.
Jurisdiction of Organization: Ontario, Canada

Name: Resources Connection (HK) Limited
Jurisdiction of Organization: Hong Kong, People's Republic of China

Name: Resources Connection Taiwan
Jurisdiction of Organization: Taipei, Taiwan

Name: Resources Connection (UK) Ltd.
Jurisdiction of Organization: England and Wales, Great Britain

Name: RC Management Group, LLC
Jurisdiction of Organization: Delaware

Name: RCG, LP
Jurisdiction of Organization: Texas
Names under which RCG, LP does business:

Resources Consulting Group

Name: RECN of Texas, LP
Jurisdiction of Organization: Texas
Names under which RECN of Texas, LP does business:

Resources Connection of Texas

Name: Resources Audit Solutions, LLC
Jurisdiction of Organization: Delaware

Name: RC Holdings I, LLC
Jurisdiction of Organization: Delaware

Name: RC Holdings II, LLC
Jurisdiction of Organization: Delaware

Name: Resources Connection Pty. Limited
Jurisdiction of Organization: Australia

Name: Resources Connection. NL B.V.
Jurisdiction of Organization: Netherlands

Name: Resources Connection Holding B.V.
Jurisdiction of Organization: Netherlands

Name: Resources Connection Japan K.K.
Jurisdiction of Organization: Japan

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-52730 and No. 333-54880) of Resources Connection, Inc. of our reports dated July 30, 2004 relating to the consolidated financial statements and financial statement schedule, which appear in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Orange County, California
August 9, 2004

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Donald B. Murray, certify that:

1. I have reviewed this annual report on Form 10-K 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: August 10, 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 annual report on Form 10-K 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: August 10, 2004

/s/ Stephen J. Giusto

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

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-K of the Company for the year ended May 31, 2004 (the “Report) fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Dated: August 10, 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-K 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. A signed original of this written statement required by Section 906 has been provided by the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.