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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 10-Q**

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**(Mark One)**

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

For the quarterly period ended November 25, 2017

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

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**RESOURCES CONNECTION, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**33-0832424**  
(I.R.S. Employer  
Identification No.)

**17101 Armstrong Avenue, Irvine, California 92614**  
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of December 26, 2017, there were approximately 31,374,627 shares of the registrant's common stock, \$0.01 par value per share, outstanding.

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RESOURCES CONNECTION, INC.

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## PART I—FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

**RESOURCES CONNECTION, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

(Amounts in thousands, except par value per share)

	November 25, 2017	May 27, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 56,284	\$ 62,329
Trade accounts receivable, net of allowance for doubtful accounts of \$2,047 and \$2,517 as of November 25, 2017 and May 27, 2017, respectively	109,025	98,222
Prepaid expenses and other current assets	5,147	4,395
Income taxes receivable	—	1,899
Total current assets	170,456	166,845
Goodwill	181,208	171,088
Intangible assets, net	4,959	—
Property and equipment, net	22,326	23,354
Deferred income taxes	1,571	973
Other assets	1,798	1,868
Total assets	<u>\$ 382,318</u>	<u>\$ 364,128</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 20,293	\$ 14,102
Accrued salaries and related obligations	43,840	49,241
Other liabilities	8,206	8,428
Total current liabilities	72,339	71,771
Long-term debt	48,000	48,000
Deferred income taxes	995	1,280
Other long-term liabilities	8,138	4,935
Total liabilities	129,472	125,986
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 5,000 shares authorized; zero shares issued and outstanding	—	—
Common stock, \$0.01 par value, 70,000 shares authorized; 59,630 and 58,992 shares issued, and 30,300 and 29,662 shares outstanding as of November 25, 2017 and May 27, 2017, respectively	596	590
Additional paid-in capital	408,412	398,828
Accumulated other comprehensive loss	(9,291)	(11,396)
Retained earnings	335,033	332,024
Treasury stock at cost, 29,330 shares as of both November 25, 2017 and May 27, 2017	(481,904)	(481,904)
Total stockholders' equity	252,846	238,142
Total liabilities and stockholders' equity	<u>\$ 382,318</u>	<u>\$ 364,128</u>

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

**RESOURCES CONNECTION, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**(Amounts in thousands, except per share amounts)**

	Three Months Ended		Six Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
Revenue	\$ 156,738	\$ 147,558	\$ 297,924	\$ 290,947
Direct cost of services, primarily payroll and related taxes for professional services employees	97,319	91,048	184,807	179,910
Gross margin	59,419	56,510	113,117	111,037
Selling, general and administrative expenses	47,498	46,056	94,913	89,670
Amortization of intangible assets	322	—	322	—
Depreciation expense	947	808	1,887	1,602
Income from operations	10,652	9,646	15,995	19,765
Interest expense	397	64	734	64
Interest income	(32)	(40)	(60)	(110)
Income before provision for income taxes	10,287	9,622	15,321	19,811
Provision for income taxes	2,149	3,930	5,071	8,481
Net income	\$ 8,138	\$ 5,692	\$ 10,250	\$ 11,330
Net income per common share:				
Basic	\$ 0.27	\$ 0.16	\$ 0.34	\$ 0.31
Diluted	\$ 0.27	\$ 0.16	\$ 0.34	\$ 0.31
Weighted average common shares outstanding:				
Basic	30,173	35,716	29,991	35,992
Diluted	30,579	36,248	30,319	36,533
Cash dividends declared per common share	\$ 0.12	\$ 0.11	\$ 0.24	\$ 0.22

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

**RESOURCES CONNECTION, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**  
**(Amounts in thousands)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>November 25, 2017</b>	<b>November 26, 2016</b>	<b>November 25, 2017</b>	<b>November 26, 2016</b>
<b>COMPREHENSIVE INCOME:</b>				
Net income	\$ 8,138	\$ 5,692	\$ 10,250	\$ 11,330
Foreign currency translation adjustment, net of tax	(610)	(3,687)	2,105	(3,044)
Total comprehensive income	<u>\$ 7,528</u>	<u>\$ 2,005</u>	<u>\$ 12,355</u>	<u>\$ 8,286</u>

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

**RESOURCES CONNECTION, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**  
**(Amounts in thousands)**

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
<b>Balances as of May 27, 2017</b>	58,992	\$ 590	\$398,828	29,330	\$(481,904)	\$ (11,396)	\$332,024	\$ 238,142
Exercise of stock options	137	1	1,665					1,666
Stock-based compensation expense			3,062					3,062
Issuance of common stock under Employee Stock Purchase Plan	194	2	2,258					2,260
Issuance of restricted stock	80	1	(1)					—
Cash dividends declared (\$0.24 per share)							(7,241)	(7,241)
Issuance of common stock for acquisition of <i>taskforce</i>	227	2	2,600					2,602
Currency translation adjustment						2,105		2,105
Net income for the six months ended November 25, 2017							10,250	10,250
<b>Balances as of November 25, 2017</b>	<u>59,630</u>	<u>\$ 596</u>	<u>\$408,412</u>	<u>29,330</u>	<u>\$(481,904)</u>	<u>\$ (9,291)</u>	<u>\$335,033</u>	<u>\$ 252,846</u>

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

**RESOURCES CONNECTION, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(Amounts in thousands)**

	Six Months Ended	
	November 25, 2017	November 26, 2016
Cash flows from operating activities:		
Net income	\$ 10,250	\$ 11,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,209	1,602
Stock-based compensation expense	3,062	3,150
Loss on disposal of assets	—	41
Bad debt expense	364	214
Deferred income taxes	(906)	(436)
Changes in operating assets and liabilities:		
Trade accounts receivable	(8,394)	(1,115)
Prepaid expenses and other current assets	(568)	(53)
Income taxes	1,468	(3,625)
Other assets	84	138
Accounts payable and accrued expenses	1,245	1,748
Accrued salaries and related obligations	(5,943)	(5,191)
Other liabilities	(1,231)	334
Net cash provided by operating activities	<u>1,640</u>	<u>8,137</u>
Cash flows from investing activities:		
Redemption of short-term investments	—	19,961
Proceeds from sale of property and equipment	1	166
Acquisition of <i>taskforce</i> , net of cash acquired	(3,423)	—
Purchase of property and equipment	(784)	(2,294)
Net cash (used in) provided by investing activities	<u>(4,206)</u>	<u>17,833</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,666	2,139
Proceeds from issuance of common stock under Employee Stock Purchase Plan	2,260	2,184
Purchase of common stock	—	(111,959)
Proceeds from Revolving Credit Facility	—	58,000
Debt issuance costs	—	(190)
Cash dividends paid	(6,833)	(7,600)
Net cash used in financing activities	<u>(2,907)</u>	<u>(57,426)</u>
Effect of exchange rate changes on cash	(572)	(1,066)
Net decrease in cash	(6,045)	(32,522)
Cash and cash equivalents at beginning of period	62,329	91,089
Cash and cash equivalents at end of period	<u>\$ 56,284</u>	<u>\$ 58,567</u>

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

**RESOURCES CONNECTION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Three and six months ended November 25, 2017 and November 26, 2016**

**1. Description of the Company and its Business**

Resources Connection, Inc. (“Resources Connection”), a Delaware corporation, was incorporated on November 16, 1998. Resources Connection is a multinational professional services firm; its operating entities primarily provide services under the name Resources Global Professionals (“RGP” or the “Company”). The Company provides agile consulting services to its global client base utilizing experienced professionals in the areas of accounting; finance; governance, risk and compliance management; corporate advisory, strategic communications and restructuring; information management; human capital; supply chain management; and legal and regulatory. The Company has offices in the United States (“U.S.”), Asia, Australia, Canada, Europe and Mexico.

The Company’s fiscal year consists of 52 or 53 weeks, ending on the last Saturday in May. The second quarters of fiscal 2018 and 2017 each consisted of 13 weeks.

**2. Summary of Significant Accounting Policies**

***Interim Financial Information***

The financial information as of and for the three and six months ended November 25, 2017 and November 26, 2016 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) the Company considers necessary for a fair presentation of its financial position at such dates and the operating results and cash flows for those periods. The fiscal 2017 year-end balance sheet data was derived from audited financial statements, and certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the U.S. (“GAAP”) have been condensed or omitted pursuant to Securities and Exchange Commission (“SEC”) rules or regulations; however, the Company believes the disclosures made are adequate to make the information presented not misleading.

The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for the full fiscal year. These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended May 27, 2017, which are included in the Company’s Annual Report on Form 10-K for the year then ended (File No. 0-32113).

***Cash, Cash Equivalents and Short-Term Investments***

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, if any, reflected in the consolidated balance sheets for cash, cash equivalents and short-term investments approximate their fair values due to the short maturities of these instruments.

***Client Reimbursements of “Out-of-Pocket” Expenses***

The Company recognizes all reimbursements received from clients for “out-of-pocket” expenses as revenue and all such expenses as direct cost of services. Reimbursements received from clients were \$2.9 million and \$2.4 million for the three months ended November 25, 2017 and November 26, 2016, respectively, and \$5.5 million and \$4.8 million for the six months ended November 25, 2017 and November 26, 2016, respectively.

***Foreign Currency Translation***

The financial statements of subsidiaries outside the U.S. are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rates effective at the end of the period, 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 accumulated other comprehensive income or loss within the Consolidated Balance Sheets. Gains and losses from foreign currency transactions are included in the Consolidated Statements of Operations.

***Net Income Per Share Information***

The Company presents both basic and diluted earnings per common share (“EPS”). Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the period, calculated using the treasury stock method for stock options. Under the treasury stock method, assumed proceeds include the amount the employee must pay for exercising stock options and the amount of compensation cost for future services the Company has not yet recognized. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. Stock options for which the exercise price exceeds the average market price per common share over the period are anti-dilutive and are excluded from the calculation.



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The following table summarizes the calculation of net income per common share for the periods indicated (amounts in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
Net income	\$ 8,138	\$ 5,692	\$ 10,250	\$ 11,330
Basic:				
Weighted average shares	30,173	35,716	29,991	35,992
Diluted:				
Weighted average shares	30,173	35,716	29,991	35,992
Potentially dilutive shares	406	532	328	541
Total dilutive shares	30,579	36,248	30,319	36,533
Net income per common share:				
Basic	\$ 0.27	\$ 0.16	\$ 0.34	\$ 0.31
Dilutive	\$ 0.27	\$ 0.16	\$ 0.34	\$ 0.31
Anti-dilutive shares not included above	5,268	5,263	5,225	4,922

### **Stock-Based Compensation**

The Company recognizes compensation expense for all share-based awards made to employees and directors, including employee stock options, restricted stock grants and employee stock purchases made via the Company's Employee Stock Purchase Plan (the "ESPP"), based on estimated fair value at the date of grant.

The Company estimates the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award ultimately expected to vest is recognized as an expense over the requisite service periods. Stock option awards vest over four years and restricted stock award vesting is determined on an individual grant basis under the Company's 2014 Performance Incentive Plan (the "2014 Plan"). The Company determines the estimated value of stock option awards using the Black-Scholes valuation model. The Company recognizes stock-based compensation expense on a straight-line basis over the service period for options and restricted stock that are expected to vest and records adjustments to compensation expense at the end of the service period if actual forfeitures differ from original estimates.

See Note 9 — *Stock-Based Compensation Plans* for further information on the 2014 Plan and stock-based compensation.

### **Use of Estimates**

The preparation of financial statements in conformity with GAAP 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 August 31, 2017, the Company acquired *taskforce – Management on Demand AG* ("*taskforce*"), a German professional services firm, founded in 2007, that provides clients with senior interim management and project management expertise. The Company paid initial consideration of €5.8 million (approximately \$6.9 million at the date of acquisition), in a combination of cash and restricted stock.

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In addition, the purchase agreement of *taskforce* requires earn-out payments to be made based on performance in calendar 2017, 2018 and 2019. Under accounting rules for business combinations, obligations that are contingently payable to the sellers based upon the occurrence of one or more future events are recorded as a discounted liability on the Company's balance sheet. The Company is obligated to pay the sellers in Euros as follows: for calendar year 2017, Adjusted EBITDA times 6.1 times 20%; and for both calendar years 2018 and 2019, Adjusted EBITDA times 6.1 times 15%; (Adjusted EBITDA as defined in the purchase agreement). The Company estimated the fair value of the obligation to pay contingent consideration based on a number of different projections of the estimated Adjusted EBITDA for each of the calendar years. The Company recorded this future obligation using a discount rate of approximately 11.0%, representing the Company's weighted average cost of capital. The estimated fair value of the contractual obligation to the contingent consideration recognized at the date of acquisition was €5.5 million (approximately \$6.5 million), of which the Company estimates \$2.4 million will be payable based upon calendar year adjusted EBITDA in March 2018. Each reporting period, the Company will estimate changes in the fair value of contingent consideration and any change in fair value will be recognized in the Company's Consolidated Statements of Operations. The estimate of fair value of contingent consideration requires very subjective assumptions to be made of various potential Adjusted EBITDA results and discount rates. Future revisions to these assumptions could materially change the estimate of the fair value of contingent consideration and therefore could materially affect the Company's future operating results.

In accordance with the accounting requirements of Accounting Standard Codification ("ASC 805"), "Business Combinations," the Company made an initial allocation of the purchase price of *taskforce* based on the fair value of the assets acquired and liabilities assumed, with the residual recorded as goodwill. As a result of the contingent consideration obligation, the Company recorded a deferred tax asset on the temporary difference between the book and tax treatment of the contingent consideration. The Company's initial purchase price allocation considers a number of factors, including the valuation of identifiable intangible assets. In connection with this acquisition, the Company provisionally recorded total intangible assets acquired including approximately \$9.0 million of goodwill, \$1.9 million for customer relationships (amortized over 3 years), \$2.0 million for tradenames (amortized over 10 years), \$0.8 million for the database of potential consultants (amortized over 3 years) and \$0.6 million for non-competition agreements (amortized over 3 years). The goodwill and other intangibles recognized in this transaction are not deductible for tax purposes.

*Taskforce* contributed approximately \$3.7 million to revenue and approximately \$0.3 million to pre-tax earnings for the quarter ended November 25, 2017.

On December 4, 2017, the Company announced the completion of its acquisition of substantially all of the assets and assumption of certain liabilities of Accretive Solutions, Inc. ("Accretive"). See Note 12, *Subsequent Events*, for additional information.

The Company incurred approximately \$0.7 million of transaction related costs during the quarter ended November 25, 2017; these expenses are included in selling, general and administrative expenses in the Company's Consolidated Statement of Operations.

The following table summarizes the consideration for the acquisition of *taskforce* and the amounts of the identified assets acquired and liabilities assumed at the acquisition date:

Fair Value of Consideration Transferred (in thousands, except share amounts):

Cash	\$ 4,274
Common stock - 226,628 shares @ \$11.48 (closing price on acquisition date discounted for restriction on sale)	2,602
Estimated contingent consideration	6,514
Total	<u>\$13,390</u>

Recognized amounts of identifiable assets acquired and liabilities assumed (in thousands):

Cash and cash equivalents	\$ 974
Accounts receivable	1,930
Prepaid expenses and other current assets	45
Intangible assets	5,321
Property and equipment, net	39
Other assets	(57)
Total identifiable assets	<u>8,252</u>
Accounts payable and accrued expenses	2,116
Accrued salaries and related obligations	15
Other current liabilities	83
Total liabilities assumed	<u>2,215</u>
Net identifiable assets acquired	6,037
Deferred tax liability	(1,686)
Goodwill	9,039
Net assets acquired	<u>\$13,390</u>

## 4. Intangible Assets and Goodwill

The following table summarizes details of the Company's intangible assets and related accumulated amortization as of November 25, 2017. The Company had no amortizable intangible assets as of May 27, 2017 (amounts in thousands):

	As November 25, 2017		
	Gross	Accumulated Amortization	Net
Tradenames (10 years)	\$2,013	\$ (50)	\$1,963
Customer contracts & relationships (3 years)	1,895	(158)	1,737

Consultant list (3 years)	781	(65)	716
Non-compete agreements (3 years)	592	(49)	543
Total	<u>\$5,281</u>	<u>\$ (322)</u>	<u>\$4,959</u>

The intangible assets described above are based upon the provisional estimate of purchase price of *taskforce* discussed in Note 3 –*Acquisitions*, and may be subject to revision after receipt of certain pending information.

The Company recorded amortization expense for the quarter ended November 25, 2017 of \$0.3 million. Future estimated intangible asset amortization expense (based on existing intangible assets) is \$1.0 million, \$1.3 million, \$1.3 million, \$0.5 million and \$0.2 million for the years ending May 26, 2018, May 25, 2019, May 30, 2020, May 29, 2021 and May 28, 2022, respectively. The estimates of future intangible asset amortization expense do not incorporate the potential impact of future currency fluctuations when translating the financial results of the Company's international operations that have amortizable intangible assets into U.S. dollars.

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The following table summarizes the activity in the Company's goodwill balance (amounts in thousands):

	For the Six Months Ended	
	November 25, 2017	November 26, 2016
Goodwill, beginning of year	\$ 171,088	\$ 171,183
Acquisitions (see Note 3)	9,039	—
Impact of foreign currency exchange rate changes	1,081	(1,148)
Goodwill, end of period	<u>\$ 181,208</u>	<u>\$ 170,035</u>

## 5. Income Taxes

The Company's provision for income taxes was \$2.1 million (effective tax rate of approximately 21%) and \$3.9 million (effective tax rate of approximately 41%) for the three months ended November 25, 2017 and November 26, 2016, respectively and \$5.1 million (effective tax rate of approximately 33%) and \$8.5 million (effective tax rate of approximately 43%) for the six months ended November 25, 2017 and November 26, 2016, respectively. The Company records tax expense based upon an actual effective tax rate versus a forecasted tax rate because of the volatility in its international operations that span numerous tax jurisdictions.

The provision for income taxes in the three and six months ended November 25, 2017 and November 26, 2016 results from taxes on income in the U.S. and certain other foreign jurisdictions, no benefit for losses in jurisdictions in which a full valuation allowance on operating loss carryforwards had previously been established and a lower benefit for losses in certain foreign jurisdictions with tax rates lower than the U.S. statutory rates. The effective tax rate decreased for the three months ended November 25, 2017 due to the reversal of valuation allowances that offset the deferred tax assets of certain foreign entities.

The Company recognized a benefit of approximately \$0.2 million and \$0.5 million related to stock-based compensation for nonqualified stock options expensed and for disqualifying dispositions under the ESPP during the second quarter of fiscal 2018 and 2017, respectively, and approximately \$0.6 million and \$1.0 million related to stock-based compensation for nonqualified stock options expensed and for disqualifying dispositions under the ESPP during the six months ended November 25, 2017 and November 26, 2016, respectively.

## 6. Long-Term Debt

In October 2016, the Company entered into a \$120 million secured revolving credit facility (“Facility”) with Bank of America, consisting of (i) a \$90 million revolving loan facility, which includes a \$5 million sublimit for the issuance of standby letters of credit (“Revolving Loan”), and (ii) a \$30 million reducing revolving loan facility, any amounts of which may not be reborrowed after being repaid (“Reducing Revolving Loan”). The Facility is available for working capital and general corporate purposes, including potential acquisitions and stock repurchases. The Company’s obligations under the Facility are guaranteed by all of the Company’s domestic subsidiaries and secured by essentially all assets of the Company, Resources Connection LLC and their domestic subsidiaries, subject to certain customary exclusions. Borrowings under the Facility bear interest at a rate per annum of either, at the Company’s option, (i) a London Interbank Offered Rate (“LIBOR”) defined in the Facility plus a margin of 1.25% or 1.50% or (ii) an alternate base rate, plus a margin of 0.25% or 0.50%, with the applicable margin depending on the Company’s consolidated leverage ratio. The alternate base rate is the highest of (i) Bank of America’s prime rate, (ii) the federal funds rate plus 0.50% and (iii) the Eurodollar rate plus 1.0%. The Company pays an unused commitment fee on the average daily unused portion of the Facility at a rate of 0.15% to 0.25% depending upon on the Company’s consolidated leverage ratio. The Facility expires October 17, 2021.

The Facility contains both affirmative and negative covenants. Covenants include, but are not limited to, limitations on the Company’s and its subsidiaries’ ability to incur liens, incur additional indebtedness, make certain restricted payments, merge or consolidate and make disposition of assets. In addition, the Facility requires the Company to comply with financial covenants limiting the Company’s total funded debt, minimum interest coverage ratio and maximum leverage ratio. The Company was in compliance with all financial covenants under the Facility as of November 25, 2017.

Upon the occurrence of an event of default under the Facility, the lender may cease making loans, terminate the Facility and declare all amounts outstanding to be immediately due and payable. The Facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults.

The Company’s borrowings on the Facility were \$48.0 million as of November 25, 2017; the Company used the funds in fiscal 2017 to fund a portion of the purchase price of its modified Dutch auction tender offer held in November 2016. In addition, the Company has \$1.0 million of outstanding letters of credit issued under the Facility. The Company has \$41.0 million remaining to borrow under the Revolving Loan and \$30.0 million remaining under the Reducing Revolving Loan as of November 25, 2017. As of November 25, 2017, the interest rate on the Company’s borrowings was 2.9% on one tranche of \$24.0 million based on a 3-month LIBOR plus 1.50% and 2.8% on a second tranche of \$24.0 million based on a 3-month LIBOR plus 1.50%.

## 7. Stockholders’ Equity

### *Stock Repurchase Program*

In July 2015, the Company’s board of directors approved a stock repurchase program (the “July 2015 program”), authorizing the repurchase, at the discretion of the Company’s senior executives, of the Company’s common stock for an aggregate dollar limit not to exceed \$150 million. Repurchases under the program may take place in the open market or in privately negotiated transactions and may be made pursuant to a Rule 10b5-1 plan. The Company did not repurchase any common stock on the open market during the six months ended November 25, 2017. As of November 25, 2017, approximately \$125.1 million remained available for future repurchases of the Company’s common stock under the July 2015 program.

## 8. Supplemental Disclosure of Cash Flow Information

The following table presents information regarding income taxes paid, interest paid and non-cash investing and financing activities (amounts in thousands):

	<b>For the Six Months Ended</b>	
	<b>November 25, 2017</b>	<b>November 26, 2016</b>
Income taxes paid	\$ 6,248	\$ 12,499
Interest paid	\$ 712	\$ —
<b>Non-cash investing and financing activities:</b>		
Capitalized leasehold improvements paid directly by landlord	\$ —	\$ 485
<b>Acquisition of taskforce:</b>		
Issuance of common stock	\$ 2,602	\$ —
Liability for contingent consideration	\$ 6,514	\$ —
Dividends declared, not paid	\$ 3,663	\$ 3,259

## 9. Stock-Based Compensation Plans

### *Stock Options and Restricted Stock*

The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 2014 Plan equals the sum of: (1) 2,400,000 shares, plus (2) the number of shares subject to stock options granted under the Resources Connection, Inc. 2004 Performance Incentive Plan and the 1999 Long Term Incentive Plan (the "Prior Stock Plans") and outstanding as of September 3, 2014 (the date at which the Prior Stock Plans terminated), which expire, or for any reason are cancelled or terminated, after that date without being exercised, plus (3) the number of shares subject to restricted stock, restricted stock unit and other full-value awards granted under the Prior Stock Plans that were outstanding and unvested as of September 3, 2014, which are forfeited, terminated, cancelled, or otherwise reacquired after that date without having become vested. As of November 25, 2017, 1,831,000 shares were available for award grant purposes under the 2014 Plan, subject to future increases as described in (2) and (3) above and subject to increase as then-outstanding awards expire or terminate without having become vested or exercised, as applicable.

Awards under the 2014 Plan may include, but are not limited to, stock options and restricted stock grants. Stock option grants generally vest in equal annual installments over four years and terminate ten years from the date of grant. Restricted stock award vesting is determined on an individual grant basis. Awards of restricted stock under the 2014 Plan will be counted against the available share limit as two and a half shares for every one share actually issued in connection with the award. The Company's policy is to issue shares from its authorized shares upon the exercise of stock options.

The following table summarizes the stock option activity for the six months ended November 25, 2017 (number of shares under option and aggregate intrinsic value in thousands):

	<b>Number of Shares Under Option</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at May 27, 2017	7,164	\$ 15.08	5.56	\$ 1,696
Granted, at fair market value	984	\$ 15.80		
Exercised	(137)	\$ 12.12		
Forfeited	(96)	\$ 14.65		
Expired	(152)	\$ 20.14		
Outstanding at November 25, 2017	<u>7,763</u>	\$ 15.13	<u>5.69</u>	<u>\$ 11,789</u>
Exercisable at November 25, 2017	<u>5,301</u>	\$ 15.17	<u>4.23</u>	<u>\$ 9,446</u>
Vested and expected to vest at November 25, 2017	<u>7,341</u>	\$ 15.11	<u>5.47</u>	<u>\$ 11,585</u>

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, which is the difference between the Company's closing stock price on the last trading day of the second quarter of fiscal 2018 and the exercise price multiplied by the number of shares that would have been received by the option holders if they had exercised their "in the money" options on November 25, 2017. This amount will change based on changes in the fair market value of the Company's common stock. The total pre-tax intrinsic value related to stock options exercised during the three months ended November 25, 2017 and November 26, 2016 was \$0.4 million and \$0.2 million, respectively, and \$0.5 million for both the six months ended November 25, 2017 and November 26, 2016.

**Stock-Based Compensation Expense**

As of November 25, 2017, there was \$8.5 million of total unrecognized compensation cost related to unvested employee stock options granted. That cost is expected to be recognized over a weighted-average period of 35 months. Stock-based compensation expense included in selling, general and administrative expenses was \$1.5 million and \$1.9 million for the three months ended November 25, 2017 and November 26, 2016, respectively, and \$3.1 million and \$3.2 million for the six months ended November 25, 2017 and November 26, 2016, respectively. These amounts consisted of stock-based compensation expense related to employee stock options, employee stock purchases made via the ESPP and restricted stock awards. There were no capitalized share-based compensation costs during the six months ended November 25, 2017 or November 26, 2016.

The Company granted 79,810 shares of restricted stock during the three and six months ended November 25, 2017 and 16,733 shares of restricted stock during the three and six months ended November 26, 2016. Stock-based compensation expense for existing restricted stock awards was \$0.3 million and \$0.2 million for the three months ended November 25, 2017 and November 26, 2016, respectively, and \$0.6 million and \$0.3 million for the six months ended November 25, 2017 and November 26, 2016, respectively. As of November 25, 2017, there were 260,625 unvested restricted shares, with approximately \$3.3 million of remaining unrecognized compensation cost.

The Company recognizes compensation expense for only the portion of stock options and restricted stock that is expected to vest, rather than recording forfeitures when they occur. If the actual number of forfeitures differs from that estimated by management, additional adjustments to compensation expense may be required in future periods.

**Employee Stock Purchase Plan**

The ESPP allows qualified employees (as defined in the ESPP) to purchase designated shares of the Company’s common stock at a price equal to 85% of the lesser of the fair market value of common stock at the beginning or end of each semi-annual stock purchase period. The ESPP’s term expires October 16, 2024. A total of 5,900,000 shares of common stock may be issued under the ESPP. The Company issued 194,000 and 359,000 shares of common stock pursuant to the ESPP during the six months ended November 25, 2017 and the year ended May 27, 2017, respectively. There were 724,000 shares of common stock available for issuance under the ESPP as of November 25, 2017.

**10. Segment Information and Enterprise Reporting**

The Company discloses information regarding operations outside of the U.S. The Company operates as one segment. The accounting policies for the domestic and international operations are the same as those described in Note 2—*Summary of Significant Accounting Policies* in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended May 27, 2017. Summarized information regarding the Company’s domestic and international operations is shown in the following table (amounts in thousands):

	Revenue for the Three Months Ended		Revenue for the Six Months Ended		Long-Lived Assets (1) as of	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016	November 25, 2017	May 27, 2017
United States	\$ 119,443	\$ 117,645	\$ 232,568	\$ 233,285	\$ 172,587	\$173,781
The Netherlands	4,674	4,761	8,442	8,691	19,051	18,036
Other	32,621	25,152	56,914	48,971	16,855	2,625
Total	<u>\$ 156,738</u>	<u>\$ 147,558</u>	<u>\$ 297,924</u>	<u>\$ 290,947</u>	<u>\$ 208,493</u>	<u>\$194,442</u>

(1) Long-lived assets are comprised of goodwill, intangible assets and property and equipment.

**11. Legal Proceedings**

The Company is involved in certain legal matters arising in the ordinary course of business. 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.

**12. Subsequent Event**

On December 4, 2017, the Company announced the completion of its acquisition of substantially all of the assets and assumption of certain liabilities of Accretive. Accretive is a professional services firm that provides expertise in accounting and finance, enterprise governance, business technology and business transformation solutions to a wide variety of organizations in the U.S. and supports startups through its County suite of back office services. The Company paid consideration of \$19.4 million in cash subject to working capital adjustments and issued 1,150,000 shares of Resources Connection common stock restricted for sale for four years. Results of operations from this transaction will be included in the Company’s consolidated statement of operations beginning in the quarter ending February 24, 2018.

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In late December 2017, Congress enacted tax reform, “Tax Cuts and Jobs Act” (H.R. 1). As details become available, the Company will assess the impact to RGP. While the reduced tax rate is anticipated to benefit RGP’s tax position, a number of the changes will partially offset that benefit. Management anticipates the tax reform will cause a one-time reduction in the carrying value of the domestic deferred tax assets and liabilities, causing a one-time impact on tax expense during the quarter of enactment. The Company anticipates further clarification will be available in the third quarter of fiscal 2018.

### **13. Recent Accounting Pronouncements**

#### *Accounting Pronouncements Adopted During Current Fiscal Year*

*Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09. The new standard modifies several aspects of the accounting and reporting for employee share-based payments and related tax accounting impacts, including the presentation in the statements of operations and cash flows of certain tax benefits or deficiencies and employee tax withholdings, as well as the accounting for award forfeitures over the vesting period (record forfeitures as they occur or estimate over the vesting period). The new standard is effective for financial statements for annual and interim periods within those annual periods beginning after December 15, 2016 and was adopted by the Company on a prospective basis effective May 28, 2017. The Company has elected to account for forfeitures based on previous guidance and will make an estimate of the number of awards expected to vest with a subsequent true up to actual forfeitures. As a result of the adoption, excess income tax benefits and deficiencies from stock-based compensation are now recognized as a discrete item within the provision for income taxes in the Consolidated Statement of Operations rather than additional paid-in capital in the Consolidated Balance Sheets. In future quarters, when tranches of unexercised options expire, there could be a potentially significant impact on the Company’s income tax expense and income tax percentage.

#### *Accounting Pronouncements Pending Adoption*

*Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting.* In May 2017, the FASB issued ASU 2017-09, which clarifies when changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the new guidance, modification accounting is only required if the fair value, vesting conditions or classification (equity or liability) of the new award are different from the original award immediately before the original award is modified. The new standard is effective for financial statements for annual periods beginning after December 15, 2017 (for the Company, fiscal 2019). Early adoption is permitted. The guidance must be applied prospectively to awards modified on or after the adoption date. The future impact of ASU 2017-09 will be dependent on the nature of future stock award modifications.

*Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* In January 2017, the FASB issued ASU 2017-04, which provides guidance regarding the goodwill impairment testing process. The new standard eliminates Step 2 of the goodwill impairment test. If a company determines in Step 1 of the goodwill impairment test that the carrying value of goodwill is greater than the fair value, an impairment for that difference must be recorded in the income statement, rather than proceeding to Step 2. The new standard is effective for financial statements for annual periods beginning after December 15, 2019 (for the Company, fiscal 2021). Early adoption is permitted for interim or annual goodwill impairments tests performed on testing dates after January 1, 2017. Based on the Company’s most recent annual goodwill impairment test completed in fiscal 2017, the Company expects no initial impact on adoption.

*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* In August 2016, the FASB issued ASU 2016-15, which provides guidance designed to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Examples include cash payments for debt prepayment or debt extinguishment; contingent consideration payments made after a business combination; and proceeds from the settlement of corporate-owned life insurance policies. The new standard is effective for financial statements for annual and interim periods within those annual periods beginning after December 15, 2017 (for the Company, fiscal 2019). Early adoption is permitted. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial statements.

*Leases (Topic 842): Leases.* In February 2016, the FASB issued ASU 2016-02, which amends the existing guidance to require lessees to recognize operating lease obligations on their balance sheets by recording the rights and obligations created by those leases. The requirements are effective for financial statements for annual periods and interim periods within those annual periods beginning after December 15, 2018 (for the Company, fiscal 2020), and early adoption is permitted. The Company is currently evaluating the impact ASU 2016-02 will have on its consolidated financial statements and believes it will have a significant impact on the Company’s reported balance sheet assets and liabilities. Under current accounting guidelines, the Company’s office leases are operating lease arrangements, in which rental payments are treated as operating expenses and there is no recognition of the arrangement on the balance sheet as an asset with the related obligation to the lessor as a liability.



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*Revenue from Contracts with Customers (Topic 606)*: In May 2014, the FASB issued ASU 2014-09, a comprehensive new revenue recognition standard that will supersede current revenue recognition guidance and is intended to improve and converge revenue recognition and related financial reporting requirements. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a number of steps to apply to achieve that core principle and requires additional disclosures. In August 2015, the FASB issued ASU 2015-14, which delays the required implementation date for the Company until fiscal 2019, with early adoption permitted for fiscal 2018. The Company has elected to adopt the guidance beginning in fiscal 2019. The standard allows for either “full retrospective” adoption, meaning the standard is applied to all periods presented, or “cumulative effect” adoption, meaning the standard is applied only to the most current period presented in the financial statements. In addition, in March 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients (Topic 606), which provides clarifying guidance in certain areas and adds some practical expedients. The effective date for this ASU is the same as the effective date for ASU 2014-09. We intend to implement the standard using the modified retrospective approach, which recognizes the cumulative effect (if any) of application recognized on that date. The Company is currently evaluating the impact of adoption of this guidance, including required disclosures, and based upon our current analysis, does not expect a significant impact on processes, systems or controls. The Company will continue to evaluate the impact of adoption of this guidance and its preliminary assessments are subject to change.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants and the SEC did not, or are not expected to, have a material effect on the Company’s results of operations, financial position or cash flows.

## **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and accompanying notes. This discussion and analysis contains “forward-looking statements,” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to expectations concerning matters that are not historical facts. Such forward-looking statements may be identified by words such as “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “remain,” “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 that could cause our actual results, levels of activity, performance or achievements and those of our industry to differ materially from those expressed or implied by these forward-looking statements. You are urged to carefully review the disclosures we make concerning risks, uncertainties and other factors that may affect our business or operating results, including those identified in Part II, Item 1A. Risk Factors below and in our Annual Report on Form 10-K for the year ended May 27, 2017 (File No. 0-32113). Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business or operating results. Readers are cautioned not to place undue reliance on the forward-looking statements included herein, which speak only as the date of this filing. We do not intend, and undertake no obligation, to update the forward-looking statements in this filing to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events, unless required by law to do so. References in this filing to “Resources Connection,” “RGP,” “Resources Global Professionals,” the “Company,” “we,” “us,” and “our” refer to Resources Connection, Inc. and its subsidiaries.

### **Overview**

RGP is a multinational consulting firm that provides agile consulting services to its global client base who are faced with disruption, business transformation and compliance issues. We bring functional competencies in the areas of accounting; finance; governance, risk and compliance management; corporate advisory, strategic communications and restructuring; information management; human capital; supply chain management; and legal and regulatory. We assist our clients with projects requiring specialized expertise in:

- Finance and accounting process transformation and optimization; financial reporting and analysis; technical and operational accounting; merger and acquisition due diligence and integration; audit response; implementation of new accounting standards such as the revenue recognition pronouncement and lease accounting standard; and remediation support
- Information management services including program and project management; business and technology integration; data strategy, including governance, security and privacy; and business performance management (such as core planning and consolidation systems)
- Corporate advisory, strategic communications and restructuring services
- Governance, risk and compliance management services including contract and regulatory compliance efforts under, for example, the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes Oxley Act of 2002 (“Sarbanes”); Enterprise Risk Management; internal controls management; and operation and IT audits

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- Supply chain management services including strategy development; procurement and supplier management; logistics and materials management; supply chain planning and forecasting; and Unique Device Identification compliance
- Human capital services including change management; organization development and effectiveness; compensation and incentive plan strategies and design; and optimization of human resources technology and operations
- Legal and regulatory services supporting commercial transactions; global compliance initiatives; and law department operations, business strategy and analytics

We were founded in June 1996 by a team at Deloitte, led by our chairman, Donald B. Murray, who was then a senior partner with Deloitte. Our founders created Resources Connection to capitalize on the increasing demand for high quality outsourced professional services. We operated as a part of Deloitte until April 1999. In April 1999, we completed a management-led buyout in partnership with several investors. In December 2000, we completed our initial public offering of common stock and began trading on the NASDAQ Stock Market. We currently trade on the NASDAQ Global Select Market under the ticker symbol “RECN”. We operate under the acronym RGP, branding for our operating entity name of Resources Global Professionals.

We operated solely in the United States (“U.S.”) until fiscal year 2000, when we opened our first three international offices and began to expand geographically to meet the demand for project consulting services across the world. As of November 25, 2017, we served clients from offices in 21 countries, including 26 international offices and 43 offices in the United States. During the second quarter of fiscal 2018, we added two international offices as a result of our acquisition of *taskforce – Management on Demand AG* (“*taskforce*”) discussed below. Our global footprint allows the Company to support the global initiatives of our multinational client base.

The Company continues to make progress against its strategic initiatives announced in April 2017. During the second quarter of fiscal 2018 the Company continued to advance its initiative to cultivate a more sophisticated and robust sales culture. The Company launched a new learning and development program to enhance training and accountability across the organization – including providing training on new management techniques and processes. RGP continued the initiative to roll out new compensation programs to drive accountability and profitable growth. The Company has completed other facets of this initiative, including the alignment of the Company’s sales process and the establishment of an enterprise-wide Business Development function. Another initiative, the Company’s Strategic Client Program, with a dedicated account team for certain high profile clients with world-wide operations, is performing well with revenue of clients in this program up 8.0% since the beginning of the fiscal year. RGP expects to complete its sales culture transformation substantially by the end of the fiscal year.

In addition, the Company believes it made good progress on further building its national business development function targeting the middle market, where the Company sees significant growth opportunities. The Company has now completed deployment of Salesforce across all of its markets, and continues to leverage this platform to improve the organization’s ability to drive and coordinate business development globally. The acquisition of substantially all of the assets and assumption of certain liabilities of Accretive Solutions, Inc. (“Accretive”) in December 2017 and discussed further below will also enhance the Company’s capabilities in the middle market.

With regard to the second initiative to redesign the Company’s business model to enhance its client offerings, the redesign is close to completion, with a focus on building its integrated solutions capabilities and delivering multi-disciplinary offerings to its clients in three areas of focus –Transaction Services, Technical Accounting Services, and Data & Analytics. In the second quarter, the Company implemented the new operating model for sales, talent and integrated solutions within RGP for all of North America. We believe this effort has already delivered improved revenue growth and the Company expects this upward performance trend to continue throughout fiscal year 2018.

With respect to the cost containment initiative, the Company remains focused on improved leverage of its selling general and administrative expenses (“S, G & A”) as a percentage of revenue and cost synergies in the core business and with the Accretive acquisition. The impact of certain headcount reductions made in fiscal 2017 have been masked by one-time expenses during the first half of the fiscal year incurred for severance, acquisition and sales transformation. RGP remains committed to managing its cost structure to achieve improved S, G & A performance as measured against revenue.

During the second quarter of fiscal 2018, the Company completed its acquisition of *taskforce*, a German based professional services firm founded in 2007 that provides clients with senior interim management and project management expertise. The Company paid initial consideration of €5.8 million (approximately \$6.9 million translated to U.S. dollars based on exchange rates at the date of acquisition) for all of the outstanding shares of *taskforce* in a combination of cash and restricted stock. In addition, the purchase agreement requires additional earn-out payments resulting from application of a formula based upon Adjusted EBITDA (as defined in the purchase agreement) for calendar years 2017, 2018 and 2019. The estimated fair value of these additional earn-out payments are recorded as contingent consideration at a discounted liability in the Company’s Consolidated Balance Sheet for €5.5 million (approximately \$6.5 million translated to U.S. dollars based on exchange rates at the date of acquisition) as of November 25, 2017. The contingent consideration is subject to revision until ultimately settled and such adjustments are recorded through the Company’s Statement of Operations. For the twelve months ended December 31, 2016, *taskforce* revenues were approximately €12 million (\$13.3 million). Results of operations of *taskforce* are included in the Company’s consolidated statement of operations in the quarter ending November 25, 2017, including revenue of \$3.7 million and pre-tax income of \$0.3 million.

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Subsequent to the end of the second quarter of fiscal 2018, the Company announced the completion of its acquisition of substantially all of the assets and assumption of certain liabilities of Accretive. Accretive is a professional services firm that provides expertise in accounting and finance, enterprise governance, business technology and business transformation solutions to a wide variety of organization in the U.S. and supports startups through its County's suite of back office services. The Company paid consideration of \$19.4 million in cash subject to working capital adjustments and issued 1,150,000 shares of Resources Connection, Inc. common stock restricted for sale for four years. The Company expects EBITDA to increase after 9-12 months, driven by cost synergies that RGP expects to achieve by the end of calendar 2018, resulting from office consolidations, the elimination of redundant back-office functions and other specific cost reductions. Results of operations from this transaction will be included in the Company's consolidated statement of operations beginning in the quarter ending February 24, 2018.

### **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 ("GAAP"). 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 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. There have been no material changes in our critical accounting policies, or in the estimates and assumptions underlying those policies, from those described in our Annual Report on Form 10-K for the year ended May 27, 2017.

*Valuation of long-lived assets* — We assess the potential impairment of long-lived tangible and intangible assets periodically or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Our goodwill is not subject to periodic amortization. This asset is considered to have an indefinite life and its carrying value is 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 this intangible asset in the future and this adjustment may materially affect the Company's future financial results and financial condition.

*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 (which may not include knowledge of all significant events), review of historical receivable and reserve trends and other pertinent information. While such losses have historically been within our expectations and the provisions established, we cannot guarantee we will continue to experience the same credit loss rates we have in the past. A significant change in the liquidity or financial position of our clients could cause unfavorable trends in receivable collections and additional allowances may be required. These additional allowances could materially affect the Company's future financial results.

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

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

*Stock-based compensation* — Under our 2014 Performance Incentive Plan, officers, employees, and outside directors have received or may receive grants of restricted stock, stock units, options to purchase common stock or other stock or stock-based awards. Under our Employee Stock Purchase Plan (the "ESPP"), eligible officers and employees may purchase our common stock in accordance with the terms of the plan.

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

The Company uses its historical volatility over the expected life of the stock option award to estimate the expected volatility of the price of its common stock. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The impact of expected dividends (\$0.12 per share in the first and second quarter of fiscal 2018 and \$0.11 per share in each quarter of fiscal 2017) is also incorporated in determining the estimated value per share of employee stock option grants. Such dividends are subject to quarterly board of director approval. The Company's expected life of stock option grants is 5.7 years for non-officers and 8.2 years for officers. The Company uses its historical volatility over the expected life of the stock option award to estimate the expected volatility of the price of its common stock. The Company reviews the underlying assumptions related to stock-based compensation at least annually.

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.

## Results of Operations

The following tables set forth, for the periods indicated, our Consolidated Statements of Operations data. These historical results are not necessarily indicative of future results.

	Three Months Ended		Six Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
	(Amounts in thousands)		(Amounts in thousands)	
Revenue	\$ 156,738	\$ 147,558	\$ 297,924	\$ 290,947
Direct cost of services	97,319	91,048	184,807	179,910
Gross margin	59,419	56,510	113,117	111,037
Selling, general and administrative expenses	47,498	46,056	94,913	89,670
Amortization of intangible assets	322	—	322	—
Depreciation expense	947	808	1,887	1,602
Income from operations	10,652	9,646	15,995	19,765
Interest expense	397	64	734	64
Interest income	(32)	(40)	(60)	(110)
Income before provision for income taxes	10,287	9,622	15,321	19,811
Provision for income taxes	2,149	3,930	5,071	8,481
Net income	<u>\$ 8,138</u>	<u>\$ 5,692</u>	<u>\$ 10,250</u>	<u>\$ 11,330</u>

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We also assess the results of our operations using EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA plus stock-based compensation expense. Adjusted EBITDA Margin is calculated by dividing Adjusted EBITDA by revenue. These measures assist management in assessing our core operating performance and the Company believes they are also useful to investors as an alternative measure of our operating performance. The following table presents EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin for the periods indicated and includes a reconciliation of such measures to net income, the most directly comparable GAAP financial measure:

	Three Months Ended		Six Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
	(Amounts in thousands)		(Amounts in thousands)	
Net income	\$ 8,138	\$ 5,692	\$ 10,250	\$ 11,330
Adjustments:				
Amortization of intangible assets	322	—	322	—
Depreciation expense	947	808	1,887	1,602
Interest expense	397	64	734	64
Interest income	(32)	(40)	(60)	(110)
Provision for income taxes	2,149	3,930	5,071	8,481
EBITDA	11,921	10,454	18,204	21,367
Stock-based compensation expense	1,450	1,855	3,062	3,150
Adjusted EBITDA	\$ 13,371	\$ 12,309	\$ 21,266	\$ 24,517
Revenue	\$ 156,738	\$ 147,558	\$ 297,924	\$ 290,947
Adjusted EBITDA Margin	8.5%	8.3%	7.1%	8.4%

The financial measures and key performance indicators we use to assess our financial and operating performance above are not defined by, or calculated in accordance with, GAAP. A non-GAAP financial measure is defined as a numerical measure of a company's financial performance that (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the comparable measure calculated and presented in accordance with GAAP in the Consolidated Statements of Operations; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measure so calculated and presented.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures. We believe EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin, which are used by management to assess the core performance of our Company, provide useful information to our investors because they are alternative financial measures investors can also use to assess the core performance of the Company and compare it to the Company's peers. EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are not measurements of financial performance or liquidity under GAAP and should not be considered in isolation or construed as substitutes for net income or other cash flow data prepared in accordance with GAAP for purposes of analyzing our profitability or liquidity. These measures should be considered in addition to, and not as a substitute for, net income, earnings per share, cash flows or other measures of financial performance prepared in conformity with GAAP.

Further, EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin have the following limitations:

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements;
- Stock-based compensation is an element of our long-term incentive compensation program, although we exclude it as an expense from Adjusted EBITDA when evaluating our ongoing operating performance for a particular period; and
- Other companies in our industry may calculate Adjusted EBITDA and Adjusted EBITDA Margin differently than we do, limiting their usefulness as comparative measures.

Due to these limitations, EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin should not be considered a substitute for performance measures calculated in accordance with GAAP.

### Three Months Ended November 25, 2017 Compared to Three Months Ended November 26, 2016

Percentage change computations are based upon amounts in thousands.

**Revenue.** Revenue increased \$9.1 million, or 6.2%, to \$156.7 million for the three months ended November 25, 2017 from \$147.6 million for the three months ended November 26, 2016. On a constant currency basis, revenue increased 5.3%. Revenue in the second quarter of fiscal 2018 includes \$3.7 million in revenue resulting from *taskforce* since its acquisition on August 31, 2017. Absent the *taskforce* revenue, revenue increased \$5.4 million, or 3.7%. We deliver our services to clients, whether multi-national or locally based, in a similar fashion across the globe. Excluding *taskforce* for comparison purposes, bill rates improved 3.4% (2.5% on a constant currency basis) and hours worked increased 0.1% between the two periods. The Company experienced an upswing in revenue in certain industries and markets during the quarter; however, consistent with recent trends, the Company's revenue in the financial services industry was down quarter-over-quarter. The timing of the result of efforts to improve our client penetration in the financial services industry is uncertain.

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As presented in the table below, revenue increased in the second quarter of fiscal 2018 compared to the same quarter of fiscal 2017 in Europe and North America but declined in Asia Pacific. A portion of the European increase is due to the acquisition of *taskforce* discussed above (dollars in thousands):

	Revenue for the Three Months Ended			% of Total	
	November 25, 2017	November 26, 2016	% Change	November 25, 2017	November 26, 2016
North America	\$ 122,458	\$ 120,052	2.0%	78.1%	81.4%
Europe	22,961	15,945	44.0%	14.7	10.8
Asia Pacific	11,319	11,561	(2.1)%	7.2	7.8
Total	\$ 156,738	\$ 147,558	6.2%	100.0%	100.0%

Our financial results are subject to fluctuations in the exchange rates of foreign currencies in relation to the United States dollar (“U.S. dollar”). Revenues denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates in effect during each period. Thus, as the value of the U.S. dollar strengthens relative to the currencies of our non-United States based operations, our translated revenue (and expenses) will be lower; conversely, if the value of the U.S. dollar weakens relative to the currencies of our non-United States based operations, our translated revenue (and expenses) will be higher. Using the comparable fiscal 2017 second quarter conversion rates, international revenues would have been lower than reported under GAAP by approximately \$1.3 million in the second quarter of fiscal 2018. Using these constant currency rates, which we believe provides a more comprehensive view of trends in our business, our revenue increased in Europe and North America by 35.7% and 1.9%, respectively, while decreasing in Asia Pacific by 0.8%.

The number of consultants on assignment as of November 25, 2017 was 2,746 compared to 2,649 consultants engaged as of November 26, 2016. The number of consultants on assignment as of November 25, 2017 includes 60 consultants from the *taskforce* acquisition.

We operated 69 (26 abroad) offices as of November 25, 2017 and 67 (23 abroad) as of November 26, 2016; the change between the two years is the result of the addition of two offices acquired in the *taskforce* transaction and the formal establishment of offices in Zurich, Switzerland and Guangzhou, China since the end of the second quarter of fiscal 2017; these additions were offset by two office closures in the United States and one office closure in Canada.

Our clients do not sign long-term contracts with us. As such, there can be no assurance as to future demand levels for the services we provide or that future results can be reliably predicted by considering past trends.

**Direct Cost of Services.** Direct cost of services increased \$6.3 million, or 6.9%, to \$97.3 million for the three months ended November 25, 2017 from \$91.0 million for the three months ended November 26, 2016. Direct cost of services includes consultant costs of \$2.6 million related to the *taskforce* acquisition. Excluding the impact of *taskforce*, the increase in the amount of direct cost of services between the periods was primarily attributable to an increase of 3.4% in the average pay rate per hour between the two quarters and an increase in benefit costs of 3.5%; hours worked increased 0.1% between the two quarters. Currency fluctuations between the quarters increased direct cost of services by \$0.9 million.

Direct cost of services as a percentage of revenue was 62.1% and 61.7% for the three months ended November 25, 2017 and November 26, 2016, respectively. The increase in the direct cost of services as a percentage of revenue between the two quarters was driven principally by the impact of *taskforce*'s higher direct cost of services percentage and to higher medical coverage expenses and unreimbursed “out of pocket” expenses, such as travel, in the fiscal 2018 quarter.

Our target direct cost of services percentage is 60% for all of our offices.

**Selling, General and Administrative Expenses.** S, G & A as a percentage of revenue was 30.3% and 31.2% for the quarters ended November 25, 2017 and November 26, 2016, respectively. The improved current quarter percentage is the result of leverage from the higher revenue in the second quarter of fiscal 2018. S, G & A increased to \$47.5 million for the second quarter of fiscal 2018 from \$46.1 million for the same period in the prior year. The second quarter of fiscal 2018 S, G & A includes \$2.9 million of expenses as follows: approximately \$0.4 million related to severance expenses, \$0.7 million of acquisition related costs and \$1.8 million related to costs of the Company's on-going transformation and integration in accordance with its strategic initiatives to drive revenue growth and improve cost containment. The prior year S, G & A included approximately \$1.1 million in severance and \$0.4 million in costs related to accelerated vesting of options previously granted to a senior executive in connection with his departure from the Company. Absent these costs in each period, S, G & A spend was approximately the same in each quarter. However, the second quarter of fiscal 2018 also includes S, G & A associated with the operations of *taskforce* of approximately \$0.8 million.

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Management and administrative headcount was 783 at the end of the second quarter of fiscal 2018 (including 17 from the *taskforce* acquisition) and 782 at the end of the second quarter of fiscal 2017.

**Sequential Operations.** On a sequential quarter basis, fiscal 2018 second quarter revenues increased approximately 11.0% (10.6% constant currency), from \$141.2 million to \$156.7 million. Revenue for fiscal 2018 includes \$3.7 million from the acquisition of *taskforce*. Absent the *taskforce* revenue, revenue increased \$11.8 million or 8.4%. Excluding *taskforce*, hours worked increased 7.8% while average bill rates improved 0.8% between the first and second quarter. The Company experienced consistent revenue growth during the Company's second quarter compared to the first quarter; some of this growth is attributable to fewer consultants on holiday during the second quarter compared to the first quarter, which included the traditional summer vacation period. The Company's sequential revenue increased in North America (5.6%), Europe (51.6%) and Asia Pacific (12.1%). On a constant currency basis, using the comparable first quarter fiscal 2018 conversion rates, sequential revenue increased in North America (5.6%), Europe (48.0%) and Asia Pacific (11.6%).

Direct cost of services as a percentage of revenue was 62.1% and 62.0% in the second and first quarters of fiscal 2018, respectively; the higher direct cost of services percentage in the second quarter is primarily the result of a 1.7% increase in average pay rate per hour, offset by a decrease in the amount of Company payroll tax expense typically experienced toward the end of the calendar year.

The ratio of S, G & A to revenue improved from 33.6% for the quarter ended August 26, 2017 to 30.3% for the quarter ended November 25, 2017. The ratio changed favorably because of improved leverage in the second quarter on a higher revenue base. Total spend in the second quarter of fiscal 2018 increased slightly to \$47.5 million from \$47.4 million in the previous quarter. The second quarter of fiscal 2018 S, G & A includes \$2.9 million of expenses as follows: approximately \$0.4 million related to severance expenses, \$0.7 million of acquisition related costs and \$1.8 million related to costs of the Company's on-going transformation and integration in accordance with its strategic initiatives to drive revenue growth and improve cost containment. The first quarter of fiscal 2018 S, G & A includes approximately \$3.8 million of expenses as follows: approximately \$1.4 million in severance expenses, approximately \$0.7 million of acquisition related costs and approximately \$1.7 million related to costs of the Company's on-going transformation and integration in accordance with its strategic initiatives to drive revenue growth and improve cost containment. Absent the S, G & A of *taskforce* of approximately \$0.8 million in the second quarter fiscal 2018, spend was approximately the same in each quarter.

**Amortization and Depreciation Expense.** Amortization of intangible assets was \$0.3 million in the second quarter of fiscal 2018 as a result of commencing amortization related to identifiable assets acquired in the August 31, 2017 purchase of *taskforce*. Those assets include: \$1.9 million for customer relationships (amortized over 3 years), \$2.0 million for tradenames (amortized over 10 years), \$0.8 million for the database of potential consultants (amortized over 3 years) and \$0.6 million for non-competition agreements (amortized over 3 years). The Company had no amortization expense in the second quarter of fiscal 2017. Based upon identified intangible assets recorded at November 25, 2017, the Company anticipates amortization expense related to identified intangible assets to approximate \$1.0 million during the fiscal year ending May 26, 2018.

Depreciation expense was \$0.9 million and \$0.8 million in the second quarter of fiscal 2018 and 2017, respectively.

**Interest Expense (Income).** The Company entered into a \$120 million secured revolving credit facility ("Facility") with Bank of America in October 2016. The Facility consists of (i) a \$90 million revolving loan facility, which includes a \$5 million sublimit for the issuance of standby letters of credit ("Revolving Loan"), and (ii) a \$30 million reducing revolving loan facility, any amounts of which may not be reborrowed after being repaid ("Reducing Revolving Loan"). The Facility is available for working capital and general corporate purposes, including potential acquisitions and stock repurchases. Our obligations under the Facility are guaranteed by all of the Company's domestic subsidiaries and secured by essentially all assets of the Company, Resources Connection LLC and their domestic subsidiaries, subject to certain customary exclusions. Borrowings under the Facility bear interest at a rate per annum of either, at the Company's option, (i) a LIBOR rate defined in the Facility plus a margin of 1.25% or 1.50% or (ii) an alternate base rate, plus a margin of 0.25% or 0.50%, with the applicable margin depending on the Company's consolidated leverage ratio. The alternate base rate is the highest of (i) Bank of America's prime rate, (ii) the federal funds rate plus 0.50% and (iii) the Eurodollar rate plus 1.0%. The Company pays an unused commitment fee on the average daily unused portion of the Facility at a rate of 0.15% to 0.25% depending upon on the Company's consolidated leverage ratio. The Facility expires October 17, 2021.

Total interest expense for the second quarter of fiscal 2018, including commitment fees, was approximately \$0.4 million. During the second quarter of fiscal 2017 the Company incurred \$0.1 million in total interest expense, as the Facility was only utilized for a portion of the quarter. As of November 25, 2017, the interest rate on the Company's borrowings was 2.9% on one tranche of \$24.0 million based on a 3-month LIBOR plus 1.50% and 2.8% on a second tranche of \$24.0 million based on a 3-month LIBOR plus 1.50%. The Company's interest income was \$32,000 in the second quarter of fiscal 2018 compared to \$40,000 for the same period of fiscal 2017. Interest income declined between the two periods as a result of the use of cash in the Dutch auction tender offer in November 2016, reducing amounts available for investment.

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**Income Taxes.** The Company's provision for income taxes was \$2.1 million (effective tax rate of approximately 21%) and \$3.9 million (effective tax rate of approximately 41%) for the three months ended November 25, 2017 and November 26, 2016, respectively. The Company records tax expense based upon an actual effective tax rate versus a forecasted tax rate because of the volatility in its international operations which span numerous tax jurisdictions.

The provision for income taxes in both the second quarter of fiscal 2018 and 2017 resulted from taxes on income in the United States and certain other foreign jurisdictions, no benefit for losses in jurisdictions in which a full valuation allowance on operating loss carryforwards had previously been established and a lower benefit for losses in certain foreign jurisdictions with tax rates lower than the United States statutory rates. The effective tax rate decreased for the three months ended November 25, 2017 due to the reversal of valuation allowances that offset the deferred tax assets of certain foreign entities. Periodically, the Company reviews the components of both book and taxable income to analyze the adequacy of the tax provision. There can be no assurance the Company's effective tax rate will remain constant in the future because of the lower benefit from the United States statutory rate for losses in certain foreign jurisdictions and the limitation on the benefit for losses in jurisdictions in which a valuation allowance for operating loss carryforwards has previously been established.

The Company can only recognize a potential tax benefit for employees' acquisition and subsequent sale of shares purchased through the ESPP if the sale occurs within a certain defined period. As a result, the Company's provision for income taxes may fluctuate from these factors for the foreseeable future. The Company recognized a benefit of approximately \$0.2 million and \$0.5 million related to stock-based compensation for nonqualified stock options expensed and for disqualifying dispositions under the ESPP during the second quarter of fiscal 2018 and 2017, respectively. The proportion of expense related to non-qualified stock option grants (for which the Company may recognize a tax benefit in the same quarter as the related compensation expense in most instances) is significant as compared to expense related to disqualifying dispositions under the ESPP. However, the timing and amount of eligible disqualifying transactions under the ESPP cannot be predicted. The Company predominantly grants nonqualified stock options to employees in the United States.

### Six Months Ended November 25, 2017 Compared to Six Months Ended November 26, 2016

Percentage change computations are based upon amounts in thousands.

**Revenue.** Revenue increased \$7.0 million, or 2.4%, to \$297.9 million for the six months ended November 25, 2017 from \$290.9 million for the six months ended November 26, 2016. On a constant currency basis, revenue increased 2.0%. Revenue in the first half of fiscal 2018 includes \$3.7 million in revenue resulting from *taskforce* since its acquisition on August 31, 2017. Absent the *taskforce* revenue, revenue increased \$3.3 million or 1.1%. Excluding *taskforce* for comparison purposes, bill rates improved 2.5% (no difference in constant currency on a rounded basis) and hours worked decreased 1.7% between the two periods. During the first half of fiscal 2018, the Company experienced an upswing in revenue in certain industries and markets; however, consistent with recent trends, the Company's revenue in the financial services industry was down year-over-year. The timing of the results of efforts to improve our client penetration in the financial services industry is uncertain.

As presented in the table below, revenue increased in the first six months of fiscal 2018 compared to the first six months of fiscal 2017 in Europe and North America but declined in Asia Pacific (dollars in thousands):

	Revenue for the Six Months Ended			% of Total	
	November 25, 2017	November 26, 2016	% Change	November 25, 2017	November 26, 2016
North America	\$ 238,395	\$ 238,028	0.2%	80.0%	81.8%
Europe	38,110	30,053	26.8%	12.8	10.3
Asia Pacific	21,419	22,866	(6.3)%	7.2	7.9
Total	<u>\$ 297,924</u>	<u>\$ 290,947</u>	2.4%	<u>100.0%</u>	<u>100.0%</u>

Our financial results are subject to fluctuations in the exchange rates of foreign currencies in relation to the U.S. dollar. Revenues denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates in effect during each period. Thus, as the value of the U.S. dollar strengthens relative to the currencies of our non-United States based operations, our translated revenue (and expenses) will be lower; conversely, if the value of the U.S. dollar weakens relative to the currencies of our non-United States based operations, our translated revenue (and expenses) will be higher. Using the conversion rates of the comparable fiscal 2017 period, international revenues would have been lower than reported under GAAP by approximately \$1.1 million in the first half of fiscal 2018. Using these constant currency rates, which we believe provides a more comprehensive view of trends in our business, our revenue increased in Europe and North America by 22.3% and 0.1%, respectively, while decreasing in Asia Pacific by 4.5%.



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**Direct Cost of Services.** Direct cost of services increased \$4.9 million, or 2.7%, to \$184.8 million for the six months ended November 25, 2017 from \$179.9 million for the six months ended November 26, 2016. Direct cost of services includes consultant costs of \$2.6 million related to the *taskforce* acquisition. Excluding the impact of *taskforce*, the increase in the amount of direct cost of services between the periods was primarily attributable to an increase in the average pay rate per hour of 3.4% (no difference on a rounded constant currency basis), an increase in benefit costs of 2.4% and an increase in reimbursable expenses of 8.3%. These increases were offset by a decrease in hours worked of 1.7%.

Direct cost of services as a percentage of revenue was 62.0% and 61.8% for the six months ended November 25, 2017 and November 26, 2016, respectively. The higher percentage in fiscal 2018 was primarily due to increased medical coverage expenses and a slight decrease in the bill rate/pay rate ratio.

Our target direct cost of services percentage is 60% for all of our offices.

**Selling, General and Administrative Expenses.** S, G & A as a percentage of revenue was 31.9% and 30.8% for the six months ended November 25, 2017 and November 26, 2016, respectively. The higher current quarter percentage is the result of higher spend in the first half of fiscal 2018 compared to the prior year. S, G & A increased to \$94.9 million for the first half of fiscal 2018 from \$89.7 million for the same period in the prior year. The first half of fiscal 2018 S, G & A includes \$6.7 million of expenses as follows: approximately \$1.8 million related to severance expenses, \$1.4 million of acquisition related costs and \$3.5 million related to costs of the Company's on-going transformation and integration in accordance with its strategic initiatives to drive revenue growth and improve cost containment. The first half of fiscal 2017 S, G & A includes approximately \$1.5 million of severance related expenses. Absent these costs in each period, S, G & A spend was approximately the same for each six month period. However, the fiscal 2018 period also includes S, G & A associated with the operations of *taskforce* of approximately \$0.8 million.

**Amortization and Depreciation Expense.** Amortization of intangible assets was \$0.3 million in the first half of fiscal 2018 as a result of commencing amortization related to identifiable assets acquired in the August 31, 2017 purchase of *taskforce*. The Company had no amortization expense in the first half of fiscal 2017. Depreciation expense was \$1.9 million for the six months ended November 25, 2017 compared to \$1.6 million for the six months ended November 26, 2016.

**Interest Expense (Income).** As described further below under the caption Liquidity and Capital Resources, the Company entered into a \$120 million Facility with Bank of America in October 2016. Total interest expense for the first half of fiscal 2018 was approximately \$0.7 million, compared to \$0.1 million in the first half of fiscal 2017 when the Facility was only accessed for a short period of time. The Company's interest income was \$60,000 in the first half of fiscal 2018 compared to \$110,000 for the same period of fiscal 2017. Although rates have generally improved in the first half of fiscal 2018 compared to the same period in the prior year, interest income declined between the two periods as a result of the use of cash in the Dutch auction tender offer in November 2016, reducing amounts available for investment.

**Income Taxes.** The Company's provision for income taxes was \$5.1 million (effective tax rate of approximately 33%) and \$8.5 million (effective tax rate of approximately 43%) for the six months ended November 25, 2017 and November 26, 2016, respectively. The Company records tax expense based upon an actual effective tax rate versus a forecasted tax rate because of the volatility in its international operations which span numerous tax jurisdictions.

The provision for income taxes for the six months ended November 25, 2017 and November 26, 2016 resulted from taxes on income in the United States and certain other foreign jurisdictions, no benefit for losses in jurisdictions in which a full valuation allowance on operating loss carryforwards had previously been established and a lower benefit for losses in certain foreign jurisdictions with tax rates lower than the United States statutory rates. The effective tax rate decreased for the six months ended November 25, 2017 due to the reversal of valuation allowances that offset the deferred tax assets of certain foreign entities. Periodically, the Company reviews the components of both book and taxable income to analyze the adequacy of the tax provision. There can be no assurance the Company's effective tax rate will remain constant in the future because of the lower benefit from the United States statutory rate for losses in certain foreign jurisdictions and the limitation on the benefit for losses in jurisdictions in which a valuation allowance for operating loss carryforwards has previously been established.

The Company can only recognize a potential tax benefit for employees' acquisition and subsequent sale of shares purchased through the ESPP if the sale occurs within a certain defined period. As a result, the Company's provision for income taxes may fluctuate from these factors for the foreseeable future. The Company recognized a benefit of approximately \$0.6 million and \$1.0 million related to stock-based compensation for nonqualified stock options expensed and for disqualifying dispositions under the ESPP during the halves of fiscal 2018 and 2017, respectively. The proportion of expense related to non-qualified stock option grants (for which the Company may recognize a tax benefit in the same quarter as the related compensation expense in most instances) is significant as compared to expense related to disqualifying dispositions under the ESPP. However, the timing and amount of eligible disqualifying transactions under the ESPP cannot be predicted. The Company predominantly grants nonqualified stock options to employees in the United States.

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**Comparability of Quarterly Results.** Our quarterly results have fluctuated in the past and we believe they will continue to do so in the future. Certain factors that could affect our quarterly operating results are described in Part II, Item 1A.—Risk Factors. Due to these and other factors, we believe quarter-to-quarter comparisons of our results of operations may not be meaningful indicators of future performance.

### **Liquidity and Capital Resources**

Our primary source of liquidity is cash provided by our operations and, historically, to a lesser extent, stock option exercises and ESPP purchases. On an annual basis, we have generated positive cash flows from operations since inception. Our ability to continue to increase cash flow from operations in the future will be, at least in part, dependent on continued improvement in global economic conditions. As of November 25, 2017, the Company had \$56.3 million of cash and cash equivalents.

In October 2016, we entered into a \$120 million Facility with Bank of America. The Facility is available for working capital and general corporate purposes, including potential acquisitions and stock repurchases. The Facility allows the Company to choose the interest rate applicable to advances. See Note 6 – *Long-Term Debt* in the Notes to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the Facility. As of November 25, 2017, the Company had borrowings of approximately \$48.0 million under the Facility and approximately \$1.0 million of outstanding letters of credit for the benefit of third parties related to operating leases and guarantees. As of November 25, 2017, the Company was in compliance with the financial covenants in the Facility.

#### *Operating Activities*

Operating activities for the six months ended November 25, 2017 provided cash of \$1.6 million compared to \$8.1 million for the six months ended November 26, 2016. Cash provided by operations in the first six months of fiscal 2018 resulted from net income of \$10.3 million and non-cash items of \$4.7 million. These amounts were partially offset by net unfavorable changes in operating assets and liabilities of \$13.3 million due primarily to the increase in the balance of accounts receivable as of the end of the second quarter of fiscal 2018. In the first six months of fiscal 2017, cash provided by operations resulted from net income of \$11.3 million and non-cash items of \$4.6 million, partially offset by net unfavorable changes in operating assets and liabilities of \$7.8 million. The primary driver of the change in cash provided by operations between the two periods was the increase in accounts receivable during fiscal 2018 combined with the decrease in net income in fiscal 2018, both of which negatively impacted cash. Non-cash items in both fiscal 2018 and fiscal 2017 include depreciation and stock-based compensation expense. These charges do not reflect an actual cash outflow from the Company.

#### *Investing Activities*

Net cash used in investing activities was \$4.2 million for the first six months of fiscal 2018, compared to a source of cash of \$17.8 million in the comparable prior year period. The primary use of cash in fiscal 2018 was cash used to acquire *taskforce* of approximately \$3.4 million, net of cash acquired. In the first six months of fiscal 2017, redemptions of short-term investments were \$20.0 million as the Company accumulated cash from maturing investments in preparation for its November 2016 tender offer. The Company did not have money invested short-term during the first half of fiscal 2018. Purchases of property and equipment decreased approximately \$1.5 million between the two periods as the Company had limited office relocation/refurbishment activities in the current year.

As described in Note 3 to the financial statements – *Acquisitions* - the purchase agreement for *taskforce* requires earn-out payments to be made. Under accounting rules for business combinations, obligations that are contingently payable to the sellers based upon the occurrence of one or more future events are recorded as a discounted liability on the Company's balance sheet. The Company is obligated to pay the sellers in Euros as follows: for calendar year 2017, Adjusted EBITDA times 6.1 times 20%; and for calendar years 2018 and 2019, Adjusted EBITDA times 6.1 times 15% (Adjusted EBITDA as defined in the purchase agreement). The Company estimated the fair value of the obligation to pay contingent consideration based on a number of different projections of the estimated Adjusted EBITDA for each of the calendar years. The Company recorded this future obligation using a discount rate of approximately 11.0%, representing the Company's weighted average cost of capital. The estimated fair value of the contractual obligation to the contingent consideration recognized at the date of acquisition was \$6.5 million, of which the Company estimates \$2.4 million will be payable based upon calendar year Adjusted EBITDA in March 2018.

#### *Financing Activities*

Net cash used in financing activities totaled \$2.9 million and \$57.4 million for the six months ended November 25, 2017 and November 26, 2016, respectively. Net cash used in financing activities for the six months ended November 25, 2017 included dividends paid on the Company's common stock of \$6.8 million, approximately \$0.8 million lower than in the comparable period of the prior year. The Company's dividend rate was \$0.12 per common share in the first half of fiscal 2018, compared to \$0.11 per common share in the first half of fiscal 2017. The Company's board of directors declared a quarterly cash dividend of \$0.12 per common share on July 27, 2017. The dividend of approximately \$3.6 million, paid on December 14, 2017, is accrued in the Company's Consolidated Balance Sheet as of November 25, 2017. The dividend paid in fiscal 2018 was lower because of the reduced number of outstanding shares of common stock after the Company's modified Dutch auction tender offer in November 2016.

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Net cash used in financing activities for the six months ended November 26, 2016 included \$104.2 million, excluding transaction costs, used to purchase shares of our common stock in the modified Dutch auction tender offer, with \$58.0 million of this amount borrowed under the Facility and the remainder funded from the Company's existing cash balances. The Company also used \$6.6 million to purchase an additional 443,256 shares of common stock on the open market during the first six months of fiscal 2017. The Company did not repurchase any shares during the six months ended November 25, 2017. Proceeds from the exercise of employee stock options and issuance of shares via the ESPP were approximately \$0.4 million lower in the first half of fiscal 2018 as compared to the comparable period of fiscal 2017.

Our ongoing operations and anticipated growth in the geographic markets we currently serve will require us to continue to make investments in office premises and capital equipment, primarily technology hardware and software. In addition, we may consider making strategic acquisitions. We currently believe our current cash, ongoing cash flows from our operations and funding available under our Facility 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 increase our use of our Facility. In addition, if we decide to make additional share repurchases, we may fund these through existing cash balances or use of our Facility. The sale of additional equity securities or certain forms of 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 or to pay dividends on our capital stock, which could have a material adverse effect on our operations, market position and competitiveness.

### **Recent Accounting Pronouncements**

Information regarding recent accounting pronouncements is contained in Note 13- *Recent Accounting Pronouncements* in the Notes to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

*Interest Rate Risk.* We are primarily exposed to market risks from fluctuations in interest rates and the effects of those fluctuations on the market values of our cash and cash equivalents and our borrowings under our Facility that bear interest at a variable market rate.

As of November 25, 2017, we had approximately \$56.3 million of cash and cash equivalents and \$48.0 million of borrowings under our Facility. The earnings on investments are subject to changes in interest rates; however, assuming a constant balance available for investment, a 10% decline in interest rates would reduce our interest income but would not have a material impact on our consolidated financial position or results of operations.

Borrowings under the Facility bear interest at a rate per annum of either, at the Company's option, (i) a LIBOR rate defined in the Facility plus a margin of 1.25% or 1.50% or (ii) an alternate base rate, plus margin of 0.25% or 0.50% with the applicable margin depending on the Company's consolidated leverage ratio. The alternate base rate is the highest of (i) Bank of America's prime rate, (ii) the federal funds rate plus 0.50% and (iii) the Eurodollar rate plus 1.0%. We are exposed to rate risk related to fluctuations in the LIBOR rate primarily; at the current level of borrow as of November 25, 2017 of \$48.0 million, a 10% change in interest rates would have resulted in approximately a \$0.1 million change in annual interest expense.

*Foreign Currency Exchange Rate Risk.* For the three months ended November 25, 2017, approximately 24% of the Company's revenues were generated outside of the United States. As a result, our operating results are subject to fluctuations in the exchange rates of foreign currencies in relation to the U.S. dollar. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the average exchange rates prevailing during the period. Thus, as the value of the U.S. dollar fluctuates relative to the currencies in our non-United States based operations, our reported results may vary.

Assets and liabilities of our non-United States based operations are translated into U.S. dollars at the exchange rate effective at the end of each monthly reporting period. Approximately 54% of our balances of cash and cash equivalents as of November 25, 2017 were denominated in U.S. dollars. The remaining 46% was comprised primarily of cash balances translated from Japanese Yen, Euros, Canadian Dollars, and Singapore Dollars. The difference resulting from the translation each period of assets and liabilities of our non-United States based operations is recorded as a component of stockholders' equity in accumulated other comprehensive income or loss.

Although we intend to monitor our exposure to foreign currency fluctuations, we do not currently use financial hedging techniques to mitigate risks associated with foreign currency fluctuations including in a limited number of circumstances when we may be asked to transact with our client in one currency but are obligated to pay our consultant in another currency. We cannot provide assurance that exchange rate fluctuations will not adversely affect our financial results in the future.

**ITEM 4. CONTROLS AND PROCEDURES.**

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of November 25, 2017. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of November 25, 2017. There was no change in the Company's internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act, during the Company's quarter ended November 25, 2017 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

We are not a party to any material legal proceedings, although we are from time to time party to legal proceedings that arise in the ordinary course of our business.

### ITEM 1A. RISK FACTORS.

**There have been no material changes in our risk factors from those disclosed in Part 1, Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 27, 2017, which was filed with the Securities and Exchange Commission on July 24, 2017. For convenience, our updated risk factors are included below in this Item 1A. The order in which the risks appear is not intended as an indication of their relative weight or importance.**

***A future economic downturn or change in the use of outsourced professional services consultants could adversely affect our business.***

While we believe general economic conditions continue to improve in most parts of the world, there continues to be some uncertainty regarding general economic conditions within some regions and countries in which we operate, leading to reluctance on the part of some multinational companies to spend on discretionary projects. Deterioration of or increased uncertainty related to the global economy or tightening credit markets could result in a reduction in the demand for our services and adversely affect our business in the future. In addition, the use of professional services consultants on a project-by-project basis could decline for non-economic reasons. In the event of a reduction in the demand for our consultants, our financial results would suffer.

Economic deterioration at one or more of our clients may also affect our allowance for doubtful accounts. Our estimate of losses resulting from our clients' failure to make required payments for services rendered has historically been within our expectations and the provisions established. However, we cannot guarantee we will continue to experience the same credit loss rates we have in the past. A significant change in the liquidity or financial position of our clients could cause unfavorable trends in receivable collections and cash flows and additional allowances may be required. These additional allowances could materially affect the Company's future financial results.

In addition, we are required to periodically, but at least annually, assess the recoverability of certain assets, including deferred tax assets and goodwill. Softening of the United States economy and international economies could adversely affect our evaluation of the recoverability of deferred tax assets, requiring us to record additional tax valuation allowances. Our assessment of impairment of goodwill is currently based upon comparing our market capitalization to our net book value. Therefore, a significant downturn in the future market value of our stock could potentially result in impairment reductions of goodwill and such an adjustment could materially affect the Company's future financial results and financial condition.

***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 consultants 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;
- local, regional, national and international accounting and other traditional professional services firms;
- independent contractors;
- traditional and Internet-based staffing firms; and
- the in-house or former in-house resources of our clients.

We cannot assure you 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 consultants and in offering pricing concessions. Some of our competitors in certain markets do not provide medical and other benefits to their consultants, thereby allowing them to potentially charge lower rates to clients. In addition, our competitors may be able to respond more quickly to changes in companies' needs and developments in the professional services industry.

***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 and our clients may terminate engagements with us at any time. The success of our business is dependent on our ability to secure new projects from clients. For example, if we are unable to secure new client projects because of improvements in our competitors' service offerings, or because of a change in government regulatory requirements, or because of an economic downturn decreasing the demand for outsourced professional services, our business is likely to be materially adversely affected. New impediments to our ability to secure projects from clients may develop over time, such as the increasing use by large clients of in-house procurement groups that manage their relationship with service providers.

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

Many of our engagements with our clients involve projects or services 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. While we are not currently subject to any client-related legal claims which we believe are material, it remains possible, because of the nature of our business, we may be involved in litigation in the future that could materially affect our future financial results. 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 personnel in the workplaces of other companies, we are subject to possible claims by our personnel 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 personnel. 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 personnel and clients.

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

Historically, we have grown by opening new offices and by increasing the volume of services provided through existing offices. Currently we are embarking on several new strategic initiatives, including the implementation of a new operating model. Our ability to execute on those strategies may impact our ability to grow our current business. Since the first quarter of fiscal 2010, we have had difficulty sustaining consistent revenue growth either quarter-over-quarter or in sequential quarters. During fiscal 2017 and 2018, we closed two offices in select markets. There can be no assurance 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 continue to grow our business will depend upon an improving global economy and a number of factors, including our ability to:

- grow our client base;
- expand profitably into new geographies;
- provide additional professional services offerings;
- hire qualified and experienced consultants;
- maintain margins in the face of pricing pressures;
- manage costs; and
- maintain or grow revenues and increase other service offerings from existing clients.

Even if we are able to resume more rapid growth in our revenue, 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. For instance, a limited number of clients are requesting certain engagements be of a fixed fee nature rather than our traditional hourly time and materials approach, thus shifting a portion of the burden of financial risk and monitoring to us. Failure to adequately respond to these new responsibilities and demands may adversely affect our business, financial condition and results of operations.

***Our ability to serve clients internationally is integral to our strategy and our international activities expose us to additional operational challenges we might not otherwise face.***

Our international activities require us to confront and manage a number of risks and expenses we would not face if we conducted our operations solely in the United States. Any of these risks or expenses could cause a material negative effect on our operating results. These risks and expenses include:

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

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

We have acquired several companies and we 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;
- addition of significant amounts of intangible assets, including goodwill, that are subject to periodic assessment of impairment, primarily through comparison of market value of our stock to our net book value, with such impairment potentially resulting in a material impact on our future financial results and financial condition;
- dilution of our stock as a result of issuing equity securities; and
- assumption of liabilities of the acquired company.

***We must provide our clients with highly qualified and experienced consultants, and the loss of a significant number of our consultants, or an inability to attract and retain new consultants, 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 consultants who possess the skills and experience necessary to satisfy their needs. At various times, such professionals can be in great demand, particularly in certain geographic areas or if they have specific skill sets. Our ability to attract and retain consultants with the requisite experience and skills depends on several factors including, but not limited to, our ability to:

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

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There can be no assurance we will be successful in accomplishing any of these factors and, even if we are, we cannot assure we will be successful in attracting and retaining the number of highly qualified and experienced consultants necessary to maintain and grow our business.

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

We have historically used stock options as a component of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. A significant portion of our options outstanding awarded prior to fiscal 2012 are priced at more than the current per share market value of our stock, limiting the grants from those years as a significant incentive to retain employees.

### ***Our computer hardware and software and telecommunications systems are susceptible to damage, breach or interruption.***

The management of our business is aided by the uninterrupted operation of our computer and telecommunication systems. These systems are vulnerable to security breaches, natural disasters or other catastrophic events, computer viruses, or other interruptions or damage stemming from power outages, equipment failure or unintended usage by employees. In particular, our employees may have access or exposure to personally identifiable or otherwise confidential information and customer data and systems, the misuse of which could result in legal liability. In addition, we rely on information technology systems to process, transmit and store electronic information and to communicate among our locations around the world and with our clients, partners and consultants. The breadth and complexity of this infrastructure increases the potential risk of security breaches. Security breaches, including cyber-attacks or cyber-intrusions by computer hackers, foreign governments, cyber terrorists or others with grievances against the industry in which we operate or us in particular, may disable or damage the proper functioning of our networks and systems. It is possible our security controls over personal and other data may not prevent unauthorized access to, or destruction, loss, theft, misappropriation or release of personally identifiable or other proprietary, confidential, sensitive or valuable information of ours or others; this access could lead to potential unauthorized disclosure of confidential personal, Company or client information others could use to compete against us or for other disruptive, destructive or harmful purposes and outcomes. Any such disclosure or damage to our networks and systems could subject us to third party claims against us and reputational harm. If these events occur, our ability to attract new clients may be impaired or we may be subjected to damages or penalties. In addition, system-wide or local failures of these information technology systems could have a material adverse effect on our business, financial condition, results of operations or cash flows.

### ***Our cash and short-term investments are subject to economic risk.***

The Company invests its cash, cash equivalents and short-term investments in foreign and domestic bank deposits, money market funds, commercial paper and certificates of deposit. Certain of these investments are subject to general credit, liquidity, market and interest rate risks. In the event these risks caused a decline in value of any of the Company's investments, it could adversely affect the Company's financial condition.

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

Our future success depends upon the continued employment of our senior management team. The unforeseen departure of one or more key members of our senior management team could significantly disrupt our operations if we are unable to successfully manage the transition. The replacement of members of senior management can involve significant time and expense and create uncertainties that could delay, prevent the achievement of, or make it more difficult for us to pursue and execute on our business opportunities, which could have an adverse effect on our business, financial condition and operating results.

Further, we generally do not have non-compete agreements with our employees and, therefore, they could terminate their employment with us at any time. Our ability to retain the services of members of our senior management and other key employees could be impacted by a number of factors, including competitors' hiring practices or the effectiveness of our compensation programs. If members of our senior management or other key employees leave our employ for any reason, they could pursue other employment opportunities with our competitors or otherwise compete with us. If we are unable to retain the services of these key personnel or attract and retain other qualified and experienced personnel on acceptable terms, our business, financial condition and operating results could be adversely affected.



***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 consultants eligible for our offered benefits as the average length of employment with the Company increases;
- the amount of vacation hours used by consultants or number of holidays in a quarter, particularly the day of the week on which they occur;
- availability of consultants with the requisite skills in demand by clients;
- changes in the pricing of our professional services or those of our competitors;
- variation in foreign exchange rates from one quarter to the next used to translate the financial results of our international operations;
- 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, which occurred during the fiscal year ended May 31, 2014 and next occurs during the fiscal year ending May 30, 2020.

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

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

Section 404 of Sarbanes requires us to evaluate periodically the effectiveness of our internal control over financial reporting, and to include a management report assessing the effectiveness of our internal controls as of the end of each fiscal year. Our management report on internal controls is contained in our Annual Report on Form 10-K for the year ended May 27, 2017. Section 404 also requires our independent registered public accountant to report on our internal control over financial reporting.

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

Although our management has determined, and our independent registered public accountant has attested, that our internal control over financial reporting was effective as of May 27, 2017, we cannot assure you we or our independent registered public accountant will not identify a material weakness in our internal controls in the future. A material weakness in our internal control over financial reporting may require management and our independent registered public accountant to evaluate our internal controls as ineffective. If our internal control over financial reporting is not considered adequate, we may experience a loss of public confidence, which could have an adverse effect on our business and our stock price. Additionally, if our internal control over financial reporting otherwise fails to comply with the requirements of Sarbanes, our business and stock price could be adversely affected.

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

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

In addition, we may face challenges from certain state regulatory bodies governing the provision of certain professional services, such as legal services or audit services. The imposition of such regulations could require additional financial and operational burdens on our business.

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

Delaware corporate law and our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could delay, defer or prevent a change of control of the 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 future investors are willing to pay for your shares. These provisions:

- authorize our board of directors to establish one or more series of undesignated preferred stock, the terms of which can be determined by the board of directors at the time of issuance;
- divide our board of directors into three classes of directors, with each class serving a staggered three-year term. Because the classification of the board of directors generally increases the difficulty of replacing a majority of the directors, it may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us and may make it difficult to change the composition of the board of directors;
- prohibit cumulative voting in the election of directors which, if not prohibited, could allow a minority stockholder holding a sufficient percentage of a class of shares to ensure the election of one or more directors;
- require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing;
- state that special meetings of our stockholders may be called only by the chairman of the board of directors, by our chief executive officer, by the board of directors after a resolution is adopted by a majority of the total number of authorized directors, or by the holders of not less than 10% of our outstanding voting stock;
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting;
- provide that certain provisions of our certificate of incorporation and bylaws can be amended only by supermajority vote (a 66 2/3 % majority) of the outstanding shares. In addition, our board of directors can amend our bylaws by majority vote of the members 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.

***We are required to recognize compensation expense related to employee stock options and our employee stock purchase plan. There is no assurance the expense we are required to recognize measures accurately the value of our share-based payment awards and the recognition of this expense could cause the trading price of our common stock to decline.***

We measure and recognize compensation expense for all stock-based compensation based on estimated values. Thus, our operating results contain a non-cash charge for stock-based compensation expense related to employee stock options and our employee stock purchase plan. In general, accounting guidance requires the use of an option-pricing model to determine the value of share-based payment awards. This determination of value is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Because our employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion the existing valuation models may not provide an accurate measure of the value of our employee stock options. Although the value of employee stock options is determined using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

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### ***The terms of our credit facility impose operating and financial restrictions on us, which may limit our ability to respond to changing business and economic conditions.***

We currently have a \$120.0 million secured revolving credit facility which is available through October 21, 2021. We are subject to various operating covenants under the credit facility which restrict our ability to, among other things, incur liens, incur additional indebtedness, make certain restricted payments, merge or consolidate and make dispositions of assets. The credit facility also requires us to comply with financial covenants limiting our total funded debt, minimum interest coverage ratio and maximum leverage ratio. Any failure to comply with these covenants may constitute a breach under the credit facility, which could result in the acceleration of all or a substantial portion of any outstanding indebtedness and termination of revolving credit commitments under the credit facility. Our inability to maintain our credit facility could materially and adversely affect our liquidity and our business.

### ***We may be unable to or elect not to pay our quarterly dividend payment.***

The Company pays a regular quarterly dividend, subject to quarterly board of director approval. The payment of, or continuation of, the quarterly dividend is at the discretion of our board of directors and is dependent upon our financial condition, results of operations, capital requirements, general business conditions, tax treatment of dividends in the United States, contractual restrictions contained in credit agreements and other agreements and other factors deemed relevant by our board of directors. We can give no assurance that dividends will be declared and paid in the future. The failure to pay the quarterly dividend, reduction of the quarterly dividend rate or the discontinuance of the quarterly dividend could adversely affect the trading price of our common stock.

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

We believe establishing, maintaining and enhancing the RGP and Resources Global Professionals brand name is important to our business. We have applied for registration in the United States and some foreign jurisdictions on certain service marks. On March 29, 2013, we filed a United States trademark application for our RGP service mark and puzzle piece logo, Serial No. 85/890,836 as well as United States trademark applications on our RGP service mark, puzzle piece and tag line, Serial No. 85/890,838; our RGP Healthcare service mark and puzzle piece logo, Serial No. 85/890,839; our RGP Legal service mark and puzzle piece logo, Serial No. 85/890,843; and our RGP Search service mark and puzzle piece logo, Serial No. 85/890,845. We received approval of these applications and registration was granted as of December 2, 2014.

We obtained a United States registration for our Resources Global Professionals service mark, Registration No. 3,298,841, registered September 25, 2007. However, our rights to this service mark are not currently protected in some of our foreign jurisdictions, and there is no guarantee any of our pending applications (or any appeals thereof or future applications) will be successful.

We had been aware from time to time of other companies using the name “Resources Connection” or some variation thereof and this contributed to our decision to adopt the operating company name of Resources Global Professionals. We obtained United States registration on our Resources Global Professionals service mark, Registration No. 3,298,841 registered September 25, 2007. However, our rights to this service mark are not currently protected in some of our foreign registrations, and there is no guarantee any of our pending applications for such registration (or any appeals thereof or future applications) will be successful. Although we are not aware of other companies using the name “Resources Global Professionals” at this time, there could be potential trade name or service mark infringement claims brought against us by the users of these similar names and marks and those users may have service mark rights senior to ours. If these claims were successful, we could be forced to cease using the service mark “Resources Global Professionals” even if an infringement claim is not brought against us. It is also possible our competitors or others will adopt service names similar to ours or 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 our business would not be adversely affected if confusion did occur or if we were required to change our name.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

During the three months ended November 25, 2017, we did not make any stock repurchases, as indicated in the table below.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Announced Programs (1)</b>	<b>Approximate Dollar Value of Shares that May Yet be Purchased Under Announced Program</b>
August 27, 2017— September 23, 2017	—	\$ —	—	\$ 125,103,123
September 24, 2017 — October 21, 2017	—	\$ —	—	\$ 125,103,123
October 22, 2017 — November 25, 2017	—	\$ —	—	\$ 125,103,123
Total August 27, 2017 — November 25, 2017	—	\$ —	—	\$ 125,103,123

- (1) In July 2015, our board of directors approved a stock repurchase program authorizing the purchase, at the discretion of the Company's senior executives, of our common stock for an aggregate dollar limit not to exceed \$150 million. Subject to the aggregate dollar limit, the currently authorized stock repurchase program does not have an expiration date. Repurchases under the program may take place in the open market or in privately negotiated transactions and may be made pursuant to a Rule 10b5-1 plan.

On August 31, 2017, in connection with the acquisition of *taskforce* and pursuant to the terms of the Sale and Purchase Agreement dated August 28, 2017, the Company issued 226,628 shares of its common stock to two of the stockholders of *taskforce* as partial consideration for the acquisition ("*taskforce* Stock Issuance"). The issuance of common stock in the *taskforce* Stock Issuance was not registered under the Securities Act of 1933, as amended (the "Securities Act"). Such shares were issued in a private placement exempt from the registration requirements of the Securities Act, in reliance on the exemptions set forth in Section 4(a)(2) of the Securities Act and Rule 506 under Regulation D.

On December 4, 2017, in connection with the acquisition of substantially all of the assets and assumption of certain liabilities of Accretive and pursuant to the terms of the Sale and Purchase Agreement dated December 4, 2017, the Company issued 1,150,000 shares of its common stock to the stockholders of Accretive as partial consideration for the acquisition ("Accretive Stock Issuance"). The issuance of common stock in the Accretive Stock Issuance was not registered under the Securities Act. Such shares were issued in a private placement exempt from the registration requirements of the Securities Act, in reliance on the exemptions set forth in Section 4(a)(2) of the Securities Act and Rule 506 under Regulation D.

See Note 3 – *Acquisitions* and Note 12 – *Subsequent Event* in the Notes to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the *taskforce* and Accretive acquisition, respectively.

**ITEM 6. EXHIBITS.**

The exhibits listed in the Exhibit Index are filed with, or incorporated by reference in, this Report.

**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Description of Document</u>
10.19†*	<a href="#">Directors Deferred Compensation Plan</a>
31.1*	<a href="#">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.</a>
31.2*	<a href="#">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.</a>
32**	<a href="#">Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	XBRL Instance.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation.
101.DEF*	XBRL Taxonomy Extension Definition.
101.LAB*	XBRL Taxonomy Extension Labels.
101.PRE*	XBRL Taxonomy Extension Presentation.

\* Filed herewith.  
\*\* Furnished herewith.  
† Indicates a management contract or compensatory plan or arrangement

**SIGNATURES**

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

Date: January 4, 2018

RESOURCES CONNECTION, INC.

/s/ Kate W. Duchene

Kate W. Duchene  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: January 4, 2018

/s/ Herbert M. Mueller

Herbert M. Mueller  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

**RESOURCES CONNECTION, INC.  
DIRECTORS DEFERRED COMPENSATION PLAN**

**1. PURPOSE OF PLAN**

The purpose of this Plan is to afford members of the Board who are not officers or employees of the Corporation or one of its Subsidiaries the opportunity to defer the payment of certain compensation and equity awards paid or granted, as the case may be, for their service on the Board in the form of Stock Units which further align the interests of participating Board members and stockholders.

**2. DEFINITIONS**

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

“Account” shall mean the bookkeeping account maintained by the Corporation on behalf of each Director that elects to defer his or her Compensation and/or Equity Awards under this Plan and is credited with Stock Units in accordance with Section 5.1 and Dividend Equivalents thereon in accordance with Section 5.2. Subaccounts of an Account may be established for recordkeeping purposes to track Stock Units credited to the Account that are subject to different payment elections.

“Administrator” shall mean the administrator of this Plan as appointed by the Board in accordance with Section 8 of this Plan, which shall administer this Plan in accordance with the provisions hereof.

“Beneficiary” or “Beneficiaries” as to a Director shall mean the duly appointed and currently acting personal representative of the Director’s estate (which shall include either the Director’s probate estate or living trust). In any case where there is no such personal representative of the Director’s estate duly appointed and acting in that capacity within ninety (90) days after the Director’s death (or such extended period as the Administrator determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed one hundred eighty (180) days after the Director’s death), then the Director’s Beneficiary shall be deemed to be the person or persons who can verify by court order that they are legally entitled to receive the benefits specified hereunder. The payment of benefits under this Plan to a Beneficiary shall fully and completely discharge the Corporation, its Subsidiaries and the Administrator from all further obligations under this Plan with respect to the Director.

“Board of Directors” or “Board” shall mean the Board of Directors of the Corporation.

“Change in Control” shall mean the occurrence of (a) a “change in the ownership” of the Corporation within the meaning of Treasury Regulation 1.409A-3(i)(5)(v), (b) a “change in the effective control” of the Corporation within the meaning of Treasury Regulation 1.409A-3(i)(5)(vi)(A)(1) or 1.409A-3(i)(5)(vi)(A)(2), or (c) a change “in the ownership of a substantial portion of the assets” of the Corporation within the meaning of Treasury Regulation 1.409A-3(i)(5)(vii).

“Closing Price” shall mean, unless otherwise determined or provided by the Administrator in the circumstances and subject to adjustment pursuant to Section 6, the closing price (in regular trading) for a share of Common Stock on the NASDAQ Stock Market (the “Market”) for the date in question (or, if such date is not a trading day on the Market, as of the most recent Market trading day preceding the date on question) or, if the Common Stock is no longer listed or is no longer actively traded on the Market as of the applicable date, the Closing Price of the Common Stock shall be the value as reasonably determined by the Administrator for purposes of this Plan in the circumstances.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Common Stock” shall mean the common stock of the Corporation, par value \$0.01 per share, subject to adjustment pursuant to Section 6 of this Plan.

“Compensation” shall mean the amount of all periodic retainer fees, including additional chairperson, lead independent director, committee chair, and committee fees, payable to a Director for services as a member of the Board with respect to a particular Plan Year that, but for any deferral election made by such Director under this Plan, would have been payable in cash to such Director, as determined by the Administrator. To the extent that additional fees are paid for attendance at meetings, Compensation shall not include meeting fees.

“Corporation” shall mean Resources Connection, Inc., a Delaware corporation, and any successor corporation.

“Director” shall mean a member of the Board who is not an officer or employee of the Corporation or one of its Subsidiaries.

“Dividend Equivalent” shall mean Stock Units credited to a Director’s Account pursuant to Section 5.2.

“Equity Award” shall mean any award of restricted stock or restricted stock units granted during a particular Plan Year by the Corporation to a Director for services as a member of the Board pursuant to the Equity Award Program.

“Equity Award Program” shall mean the Corporation’s Non-Employee Director Equity Award Program, as amended from time to time, adopted under the Performance Incentive Plan.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Fair Market Value” shall mean, unless otherwise determined or provided by the Administrator in the circumstances and subject to adjustment pursuant to Section 6, the average closing price (in regular trading) for a share of Common Stock on the NASDAQ Stock Market (the “Market”) for the period of ten (10) consecutive trading days ending with the last trading day before the date in question or, if the Common Stock is no longer listed or is no longer actively traded on the Market as of the applicable date, the Fair Market Value of the Common Stock shall be the value as reasonably determined by the Administrator for purposes of this Plan in the circumstances.



“Performance Incentive Plan” shall mean the Resources Connection, Inc. 2014 Performance Incentive Plan, as amended from time to time (or a successor plan thereto).

“Plan” shall mean this Resources Connection, Inc. Directors Deferred Compensation Plan as set forth herein and as amended from time to time.

“Plan Year” shall mean the calendar year, with the first Plan Year being 2018.

“Separation from Service” shall mean a Director’s ceasing to serve as a member of the Board for any reason. For purposes of clarity, if at the relevant time a Director provides services for the Corporation as both an employee and as a member of the Board, to the extent permitted by Treasury Regulation Section 1.409A-1(h)(5), the services provided by such Director as an employee shall not be taken into account in determining whether the Director has experienced a Separation from Service as a director for purposes of the Plan.

“Stock Unit” shall mean a non-voting unit of measurement which is deemed solely for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to Section 6) solely for purposes of this Plan.

“Subsidiary” shall mean any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Corporation.

### **3. PARTICIPATION**

Directors will be eligible to defer all or a portion of their Compensation and/or Equity Awards in accordance with Section 4.1. Notwithstanding anything else contained in this Plan to the contrary, the Administrator may, in its sole discretion and effective as of the end of any Plan Year, terminate the ability of a Director to defer additional amounts under Section 4.1.

### **4. CONTRIBUTIONS**

#### **4.1 *Elections to Defer Compensation and Equity Awards.***

**4.1.1 Amount and Timing of Deferrals.** Subject to Section 3 above, a Director may elect to defer any percentage or dollar amount of his or her Compensation with respect to a Plan Year up to 100% of the amount of such Compensation. In addition, a Director may elect to receive any Equity Award granted or to be granted, as the case may be, to the Director during a Plan Year in the form of Stock Units credited under this Plan and defer the payment of up to 100% of such Stock Units as provided herein. Any election by a Director to defer Compensation and any Equity Award must be filed with the Corporation, on a form and in a manner prescribed by the Corporation, by December 31 preceding the Plan Year with respect to which such election is effective or such earlier deadline as may be established by the Administrator with respect to such Plan Year.

- 4.1.2** “Evergreen” Duration of Deferral Election and Changes to Deferral Elections. Any election to defer Compensation or any Equity Award made under this Section 4.1 shall be irrevocable and shall continue in effect for (1) the Plan Year for which it is effective, and (2) unless and until a new election by the Director becomes effective as provided below, each subsequent Plan Year for so long as the Director remains a member of the Board. If a Director makes a new election pursuant to Section 4.1.1 or provides the Corporation with written notice to terminate deferrals, such new election shall take effect beginning with the first new Plan Year to commence after such election or notice is received by the Corporation. A Director who has filed an election to terminate deferrals under this Plan may elect to recommence deferrals for future Plan Years by filing a new election pursuant to Section 4.1.1.
- 4.1.3** New Directors. For purposes of clarity, a Director newly elected or appointed to the Board after the beginning of a Plan Year may not file an election to defer Compensation or any Equity Award with respect to that Plan Year but may file such a deferral election with respect to the following Plan Year.

## 5. ACCOUNTS

- 5.1** *Crediting of Stock Units.* The Corporation shall establish and maintain an Account for each Director who has elected under Section 4.1 to defer a portion of his or her Compensation or Equity Awards. On or as soon as administratively practical after the date Compensation a Director has elected to defer under Section 4.1 would otherwise have been paid to the Director but for such deferral (the “Cash Payment Date”), the Corporation shall credit such Director’s Account with a number of Stock Units determined by dividing the amount of such Compensation deferred by the Director to this Plan by the Fair Market Value of a share of Common Stock as of the corresponding Cash Payment Date. On or as soon as administratively practical after the date an Equity Award that a Director has elected to defer under Section 4.1 is granted, the Corporation shall credit such Director’s Account with a number of Stock Units equal to the number of Stock Units the Director has elected to defer hereunder.
- 5.2** *Dividend Equivalents.* As of any date on which the Corporation pays an ordinary cash dividend on its Common Stock (the “Dividend Payment Date”), the Director’s Account shall be credited with additional Stock Units equal to (i) the per-share cash dividend paid by the Corporation on its Common Stock on such date, multiplied by (ii) the total number of Stock Units (including any Dividend Equivalents previously credited hereunder) in the Director’s Account at the start of business as of the related dividend payment record date, divided by (iii) the Closing Price of a share of Common Stock as of the Dividend Payment Date.
- 5.3** *Account Not Funded; No Stockholder Rights.* A Director’s Account shall be a memorandum account on the books of the Corporation. The Stock Units credited to a Director’s Account shall be used solely as a device for the determination of the amount of cash benefit to be eventually paid to such Director in accordance with this Plan. The Stock Units shall not be treated as property or as a trust fund of any kind. No Director shall be entitled to any voting or other stockholder rights with

respect to Stock Units credited under this Plan. The number of Stock Units credited (and the underlying shares of Common Stock to which the Stock Units relate) shall be subject to adjustment in accordance with Section 6 of this Plan.

- 5.4 **Reduction in Stock Units.** A Director's Account shall be reduced by the number of Stock Units with respect to which payment is made or that terminate because the vesting requirements applicable to the Stock Units are not satisfied.
- 5.5 **Vesting of Stock Units.** Stock Units credited to a Director's Account pursuant to an election to defer Compensation (and any Dividend Equivalents credited thereon) are 100 percent vested at all times. Stock Units credited to a Director's Account pursuant to an election to defer an Equity Award shall be subject to the vesting conditions applicable to such Equity Award pursuant to the Corporation's Equity Award Program (and, to the extent such vesting conditions are not met, shall be subject to termination without payment in accordance with the terms of the Equity Award Program); provided that Dividend Equivalents credited to a Director's Account with respect to such Stock units shall be 100 percent vested at all times.

## 6. ADJUSTMENTS IN CASE OF CHANGES IN COMMON STOCK

Upon (or, as may be necessary to effect the adjustment, immediately prior to): any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock; or any exchange of Common Stock or other securities of the Corporation, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; then the Administrator shall equitably and proportionately adjust (1) the number, amount and type of shares of Common Stock (or other securities or property) that may become payable (or with respect to which the value of Stock Units is measured, as the case may be) with respect to the Stock Units credited under this Plan, as well as (2) the closing prices taken into account in determining Fair Market Value to the extent such an event occurs during the trading days over which the Fair Market Value is determined, in each case to the extent necessary to preserve the intended level of benefits (but without duplication of benefits if Dividend Equivalents are credited with respect to any such event). Without limiting the generality of Section 8, any good faith determination by the Administrator as to whether an adjustment is required in the circumstances pursuant to this Section 6, and the extent and nature of any such adjustment, shall be conclusive and binding on all persons.

## 7. PAYMENT OF STOCK UNITS

### 7.1 *Timing of Payment of Stock Units.*

- 7.1.1 Timing of Payment Generally. Stock Units credited to a Director's Account, to the extent such Stock Units are then vested, shall be paid to the Director in a lump sum upon or as soon as administratively practical following (and in all events within thirty (30) days following) the Director's Separation from Service; provided, however, that at the time of making a deferral election pursuant to Section 4.1, a Director may elect to

have the Stock Units subject to such election paid in substantially equal annual installments (not less than two (2) installments and not more than ten (10) installments), with the first such installment to be paid upon or as soon as administratively practical following (and in all events within thirty (30) days following) the Director's Separation from Service and the remaining installments to be paid each year thereafter in the same calendar month in which the Director's Separation from Service occurs until the entire Account has been paid. For example, if a Director elects payment in annual installments over five (5) years, the first installment payment would equal one-fifth (1/5<sup>th</sup>) of the Stock Units subject to such election and credited to the Director's Account as of the Director's Separation from Service (rounded to the nearest whole share), the second installment payment would equal one-fourth (1/4<sup>th</sup>) of the Stock Units subject to such election and credited to the Director's Account as of the start of the month for the month in which the first anniversary of the Director's Separation from Service occurs (rounded to the nearest whole share), and so on. The final payment (whether lump sum or installments) shall be rounded down to the nearest whole share.

**7.1.2** "Evergreen" Duration of Payment Election and Changes to Payment Elections. A Director's election as to the form of payment of his or her Account made under this Section 7.1 shall be irrevocable and shall apply to Stock Units (including Dividend Equivalent Stock Units) credited in respect of deferrals of Compensation and Equity Awards for the Plan Year for which it is effective and each subsequent Plan Year for so long as the Director remains a member of the Board unless, prior to the commencement of such subsequent Plan Year, the Director makes a new election pursuant to Section 4.1 that provides a different timing of payment for the deferred Compensation and Equity Awards for such subsequent Plan Year (but, for purposes of clarity, any such new election shall not apply to the Plan Year in which it is made or any prior Plan Year). Notwithstanding the foregoing, if a Change in Control occurs before any Stock Units credited to a Director's Account otherwise become payable (including any installment payments that the Director may have elected that have not yet become payable), such Stock Units shall be paid to the Director in a lump sum upon or as soon as administratively practical following (and in all events within thirty (30) days following) the Change in Control.

**7.2** **Form of Payment.** Distribution of Stock Units shall be made in the form of a cash payment equal to, for each Stock Unit to be paid, the Fair Market Value of a share of Common Stock as of the date of payment.

**7.3** **Specified Employees.** Notwithstanding any provision of this Plan to the contrary, if any payment of Stock Units pursuant to this Section 7 is triggered by a Director's Separation from Service and the Director is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of the Director's Separation from Service, the Director shall not be entitled to receive

such payment until the earlier of (i) the date which is six (6) months after the Director's Separation from Service for any reason other than death, or (ii) the date of the Director's death. Any amounts otherwise payable to the Director upon or in the six (6) month period following the Director's Separation from Service that are not so paid by reason of this Section 7.3 shall be paid (without interest) as soon as practicable (and in all events within thirty (30) days) after the date that is six (6) months after the Director's Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of the Director's death). The provisions of this Section 7.3 shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Code Section 409A.

**7.4 Death of Director.** In the event that a Director or former Director dies before receiving payment of his or her vested Stock Units under this Plan, the balance of the Director's vested Stock Units shall be paid to the Director's Beneficiary, in the form of a lump sum payment, as soon as administratively practical after the date the Corporation is notified of the Director's death.

## **8. ADMINISTRATION**

**8.1 Administrator.** Unless otherwise provided by the Board, this Plan shall be administered by the Compensation Committee of the Board.

**8.2 Powers and Duties of the Administrator.** The Administrator shall be charged with the general administration of this Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

(a) To construe and interpret the terms and provisions of this Plan;

(b) To make any required determination as to the amount or kind of benefits payable to Directors and their Beneficiaries, and to determine the time and manner in which such benefits are paid;

(c) To make and publish such rules for the regulation of this Plan and procedures for the administration of this Plan as are not inconsistent with the terms hereof; and

(d) To delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Corporation or any of its Subsidiaries or to third parties.

**8.3 Binding Determinations; Indemnification.** Any action taken by, or inaction of, the Corporation, any Subsidiary, or the Administrator relating or pursuant to this Plan and within its authority hereunder or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. Neither the Board nor any Board committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan (or any Stock Units credited under this Plan), and all such persons shall

be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time.

- 8.4 Information.** To enable the Administrator to perform its functions, the Corporation shall supply full and timely information to the Administrator on all matters relating to the compensation of all Directors, their termination of service, and such other pertinent facts as the Administrator may require.
- 8.5 Annual Statements.** At least annually, the Corporation shall provide each Director with an Account a statement as to the number of Stock Units credited as of the date of such statement to such Director's Account.

## 9. MISCELLANEOUS

- 9.1 Unsecured General Creditor.** Directors and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Corporation or any of its Subsidiaries. No assets of the Corporation or any Subsidiary shall be held under any trust or held in any way as collateral security for the fulfilling of the obligations of the Corporation under this Plan. Any and all of the assets of the Corporation and its Subsidiaries shall be, and remain, the general unpledged, unrestricted assets of each such entity. The Corporation's obligations under this Plan shall be merely that of an unfunded and unsecured promise of the Corporation to pay money in the future to those persons to whom the Corporation has a benefit obligation under this Plan (as determined in accordance with the terms hereof), and the respective rights of the Directors and Beneficiaries shall be no greater than those of unsecured general creditors.
- 9.2 Restriction Against Assignment.** The Corporation shall pay all amounts payable hereunder only to the person or persons designated by this Plan and not to any other person or corporation. No part of a Director's Account shall be liable for the debts, contracts, or engagements of any Director, his or her Beneficiary, or successors in interest, nor shall a Director's Account be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Director, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any distribution or payment from this Plan, voluntarily or involuntarily, the Administrator, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Director, Beneficiary or successor in interest in such manner as the Administrator shall direct.

- 9.3 Withholding.** The Corporation may, in its reasonable discretion, satisfy the amount of any state or federal tax withholding obligation with respect to any Compensation deferred under this Plan or benefits payable under this Plan by either (a) deducting such amounts from any compensation payable by the Corporation to the Director, or (b) reducing the Director's deferral amount (in the case of such obligations arising in connection with a Compensation deferral) or benefits payable under this Plan (in the case of such obligations arising in connection with such payment) by the amount necessary to satisfy such withholding obligation.
- 9.4 Amendment, Modification, Suspension or Termination.** The Board or the Administrator may at any time amend or modify this Plan, except that no amendment or modification shall have any retroactive effect to reduce any amounts allocated to a Director's Account. In addition, the Board or the Administrator reserves discretion to terminate this Plan and pay the Stock Units credited to Director's Account hereunder to the Director, in each case in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix).
- 9.5 Governing Law; Severability.** This Plan shall be construed, governed and administered in accordance with the laws of the State of Delaware. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.
- 9.6 Payments on Behalf of Persons Under Incapacity.** In the event that any amount becomes payable under this Plan to a person who, in the sole judgment of the Administrator, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrator may direct that such payment be made to any person found by the Administrator, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Administrator, the Corporation and its Subsidiaries.
- 9.7 No Service Commitment.** Nothing contained in this Plan constitutes a continued service commitment by the Corporation or interferes with the right of the Corporation to increase or decrease the compensation of the Director from the rate in existence at any time. No Director shall have any right to any payment or benefit hereunder except to the extent provided in this Plan.
- 9.8 Compliance with Laws.** This Plan and the offer, issuance and delivery of shares of Common Stock and/or the payment of money through the deferral of compensation under this Plan are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities law) and to such approvals by any listing, agency or any regulatory or governmental authority as may, in the opinion of counsel for the Corporation, be necessary or advisable in connection therewith. Any securities delivered under this Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Corporation, provide such assurances and representations to the Corporation as the Corporation may deem necessary or desirable to assure compliance with all applicable legal requirements.

**9.9 Construction and Interpretation.** It is the intent of the Corporation that transactions pursuant to this Plan satisfy and be interpreted in a manner that satisfies the applicable requirements of Rule 16b-3 promulgated under the Exchange Act (“Rule 16b-3”) so that, to the extent elections are timely made, the crediting of Stock Units, the payment of Stock Units and any other event with respect to Stock Units under this Plan will be entitled to the benefits of Rule 16b-3 or other exemptive rules under Section 16 of the Exchange Act and will not be subjected to avoidable liability thereunder.

This Plan is intended to comply with Section 409A of the Code (including the Treasury Regulations and other published guidance relating thereto) so as not to subject any Director to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of this Plan shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Director. Each payment and installment payable under this Plan is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2).

**9.10 Headings, etc. Not Part of Agreement.** Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.



**Certification of Chief Executive Officer**  
**Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934**

I, Kate W. Duchene, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Resources Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 4, 2018

/s/ Kate W. Duchene

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**Kate W. Duchene**  
**President and Chief Executive Officer**

**Certification of Chief Financial Officer  
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934**

I, Herbert M. Mueller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Resources Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 4, 2018

/s/ Herbert M. Mueller

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**Herbert M. Mueller**  
**Executive Vice President**  
**and Chief Financial Officer**

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

The undersigned, Kate W. Duchene, the Chief Executive Officer of Resources Connection, Inc., and Herbert M. Mueller, Chief Financial Officer of Resources Connection, Inc. (the "Company"), pursuant to 18 U.S.C. §1350, hereby certify that, to the best of their knowledge:

- (i) the Report on Form 10-Q of the Company for the quarter ended November 25, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 4, 2018

/s/ KATE W. DUCHENE

**Kate W. Duchene**  
**President and Chief Executive Officer**

/s/ HERBERT M. MUELLER

**Herbert M. Mueller**  
**Executive Vice President and Chief Financial Officer**

The foregoing certification accompanies the Report on Form 10-Q pursuant to 18 U.S.C. Section 1350. 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.