

RESOURCES CONNECTION INC

Form 10-Q

January 03, 2008

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended November 30, 2007

OR

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

For the transition period from _____ to _____

Commission File Number: 0-32113

RESOURCES CONNECTION, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(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 and Zip Code)
(714) 430-6400

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of December 26, 2007, 45,317,028 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

**RESOURCES CONNECTION, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
RESOURCES CONNECTION, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(amounts in thousands, except par value per share)

	November 30, 2007	May 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 103,668	\$ 121,095
Short-term investments	11,000	55,000
Trade accounts receivable, net of allowance for doubtful accounts of \$4,113 and \$4,588 as of November 30, 2007 and May 31, 2007, respectively	116,621	105,146
Prepaid expenses and other current assets	4,127	5,966
Deferred income taxes	8,123	8,123
Total current assets	243,539	295,330
U.S. Government agency securities	6,000	47,000
Goodwill	91,237	83,263
Intangible assets, net	316	654
Property and equipment, net	38,345	35,347
Deferred income taxes	2,870	2,068
Other assets	1,434	799
Total assets	\$ 383,741	\$ 464,461
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 16,873	\$ 16,850
Accrued salaries and related obligations	56,308	60,407
Income taxes payable and other liabilities	6,188	10,426
Total current liabilities	79,369	87,683
Other long-term liabilities	5,708	6,301
Deferred income taxes	5,422	7,178
Total liabilities	90,499	101,162
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; 51,722 and 50,731 shares issued; and 45,930 and 47,777 outstanding as of November 30, 2007 and May 31, 2007, respectively	517	507
Additional paid-in capital	229,263	199,741

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Accumulated other comprehensive income	5,567	2,629
Retained earnings	205,938	242,628
Treasury stock at cost, 5,792 and 2,954 shares at November 30, 2007 and May 31, 2007, respectively	(148,043)	(82,206)
Total stockholders' equity	293,242	363,299
Total liabilities and stockholders' equity	\$ 383,741	\$ 464,461

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

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2007	2006	2007	2006
Revenue	\$ 206,638	\$ 182,804	\$ 400,758	\$ 347,911
Direct cost of services, primarily payroll and related taxes for professional services employees	127,025	110,152	247,656	210,071
Gross profit	79,613	72,652	153,102	137,840
Selling, general and administrative expenses	55,514	46,658	108,543	91,456
Amortization of intangible assets	84	344	338	762
Depreciation expense	2,007	1,444	3,882	2,800
Income from operations	22,008	24,206	40,339	42,822
Interest income	1,629	2,013	4,171	3,922
Income before provision for income taxes	23,637	26,219	44,510	46,744
Provision for income taxes	10,601	11,562	19,892	21,136
Net income	\$ 13,036	\$ 14,657	\$ 24,618	\$ 25,608
Net income per common share:				
Basic	\$ 0.28	\$ 0.30	\$ 0.51	\$ 0.53
Diluted	\$ 0.27	\$ 0.29	\$ 0.49	\$ 0.51
Weighted average common shares outstanding:				
Basic	47,315	48,123	48,363	48,133
Diluted	48,754	50,470	50,226	50,123
Cash dividends declared per share	\$	\$	\$ 1.25	\$

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

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RESOURCES CONNECTION, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(Unaudited)
(amounts in thousands)

	Six Months Ended November 30, 2007
COMMON STOCK SHARES:	
Balance at beginning of period	50,731
Exercise of stock options	858
Issuance of common stock under Employee Stock Purchase Plan	143
Cancellation of shares held in treasury	(10)
 Balance at end of period	 51,722
COMMON STOCK PAR VALUE:	
Balance at beginning of period	\$ 507
Exercise of stock options	9
Issuance of common stock under Employee Stock Purchase Plan	1
Cancellation of shares held in treasury	
 Balance at end of period	 \$ 517
ADDITIONAL PAID-IN CAPITAL:	
Balance at beginning of period	\$ 199,741
Exercise of stock options	10,626
Stock-based compensation expense related to employee stock options and employee stock purchases	11,262
Tax benefit from employee stock option plans	3,175
Issuance of common stock under Employee Stock Purchase Plan	3,871
Issuance of treasury stock for Compliance Solutions (UK) Ltd. transaction	777
Cancellation of shares held in treasury	(189)
 Balance at end of period	 \$ 229,263
ACCUMULATED OTHER COMPREHENSIVE INCOME:	
Balance at beginning of period	\$ 2,629
Translation adjustments	2,938
 Balance at end of period	 \$ 5,567
RETAINED EARNINGS:	
Balance at beginning of period	\$ 242,628
Cash dividends-\$1.25 per share	(60,652)
Cumulative impact from adoption of FASB Interpretation No. 48	(656)
Net income	24,618

Balance at end of period	\$	205,938
TREASURY STOCK SHARES:		
Balance at beginning of period		2,954
Repurchase of shares		2,915
Issuance of treasury stock for Compliance Solutions (UK) Ltd. transaction		(67)
Cancellation of shares held in treasury		(10)
Balance at end of period		5,792
TREASURY STOCK COST:		
Balance at beginning of period	\$	(82,206)
Repurchase of shares		(67,401)
Issuance of treasury stock for Compliance Solutions (UK) Ltd. transaction		1,375
Cancellation of shares held in treasury		189
Balance at end of period	\$	(148,043)
COMPREHENSIVE INCOME:		
Net income	\$	24,618
Translation adjustments		2,938
Total comprehensive income	\$	27,556

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

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

	Six Months Ended	
	November 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 24,618	\$ 25,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,220	3,562
Stock-based compensation expense related to employee stock options and employee stock purchases	11,262	9,363
Excess tax benefits from stock-based compensation	(2,157)	(1,209)
Bad debt expense		184
Deferred income tax benefit	(2,304)	(1,535)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	(7,658)	(14,410)
Prepaid expenses and other current assets	2,093	120
Income taxes payable	(4,101)	6,130
Other assets	(667)	(132)
Accounts payable and accrued expenses	(1,075)	(1,234)
Accrued salaries and related obligations	(5,271)	(2,080)
Other liabilities	819	(210)
Net cash provided by operating activities	19,779	24,157
Cash flows from investing activities:		
Redemption of long-term investments	49,000	12,000
Purchase of long-term investments	(14,000)	(32,000)
Redemption of short-term investments	50,000	18,000
Cash used to complete Compliance Solutions (UK) Ltd. transaction	(6,028)	
Cash used to complete Nordic Spring transaction		(1,488)
Purchases of property and equipment	(6,176)	(4,599)
Net cash provided by (used in) investing activities	72,796	(8,087)
Cash flows from financing activities:		
Proceeds from exercise of stock options	10,635	5,957
Proceeds from issuance of common stock under Employee Stock Purchase Plan	3,872	2,532
Repurchase of common stock	(67,401)	(14,130)
Excess tax benefits from stock-based compensation	2,157	1,209
Cash dividends paid	(60,652)	
Net cash used in financing activities	(111,389)	(4,432)
Effect of exchange rate changes on cash	1,387	136

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Net (decrease) increase in cash and cash equivalents	(17,427)	11,774
Cash and cash equivalents at beginning of period	121,095	88,439
Cash and cash equivalents at end of period	\$ 103,668	\$ 100,213

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

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

Six months ended November 30, 2007 and 2006

1. Description of the Company and its Business

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

The Company s fiscal year consists of 52 or 53 weeks, ending on the last Saturday in May. The actual quarter end dates for the second quarter of fiscal 2008 and 2007, each consisting of 13 weeks, were November 24, 2007 and November 25, 2006, respectively. For convenience, all references herein to years or periods are to years or periods ended May 31 or November 30, respectively.

2. Summary of Significant Accounting Policies

Interim Financial Information

The financial information as of and for the three and six months ended November 30, 2007 and 2006 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair statement of its financial position at such dates and the operating results and cash flows for those periods. The year-end balance sheet data was derived from audited financial statements, and certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules or regulations; however, the Company believes the disclosures made are adequate to make the information presented not misleading.

The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for the fiscal year. These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended May 31, 2007, which are included in the Company s Annual Report on Form 10-K for the year then ended (File No. 0-32113).

Short and Long-Term Investments

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

All held-to-maturity securities have remaining maturity dates greater than one year. To secure a higher interest rate on the Company s investment in government bonds, \$6.0 million and \$47.0 million in investments classified as long-term as of November 30, 2007 and May 31, 2007, respectively, are callable at the discretion of the issuer although their stated maturity dates are greater than one year from the balance sheet date.

Table of Contents**Stock-Based Compensation**

The Company calculates stock-based compensation expense in accordance with SFAS No. 123 revised, Share-Based Payment (SFAS 123 (R)). This pronouncement requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases made via the Resources Connection Inc. Employee Stock Purchase Plan (the ESPP), to be based on estimated fair values. The Company adopted SFAS 123 (R) using the modified prospective method, which required the application of the accounting standard as of June 1, 2006, the beginning of the Company's 2007 fiscal year. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) related to SFAS 123 (R). The Company applied the provisions of SAB 107 in adopting SFAS 123 (R).

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

See Note 8 *Stock-Based Compensation Plans* for further information on stock-based compensation expense and the resulting impact on the provision for income taxes.

Use of Estimates

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

3. Stockholders' Equity

In July 2007, the Board of Directors approved a new stock repurchase program, authorizing the repurchase, at the discretion of our Company's senior executives, of our common stock for an aggregate dollar limit not to exceed \$150 million. This program supersedes the original program approved in October 2002 and completed in fiscal 2007, which authorized the repurchase of up to 3.0 million shares of our common stock. Pursuant to the new stock repurchase program, during the first six months of fiscal 2008, the Company purchased approximately 2.9 million shares of our common stock at an average price of \$23.13 per share for approximately \$67.4 million.

4. Net Income Per Share

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

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The following table summarizes the calculation of net income per share for the three and six months ended November 30, 2007 and 2006 (in thousands, except per share amounts):

	Three months ended November 30,		Six months ended November 30,	
	2007	2006	2007	2006
Net income	\$ 13,036	\$ 14,657	\$ 24,618	\$ 25,608
Basic:				
Weighted average shares	47,315	48,123	48,363	48,133
Diluted:				
Weighted average shares	47,315	48,123	48,363	48,133
Potentially dilutive shares	1,439	2,347	1,863	1,990
Total dilutive shares	48,754	50,470	50,226	50,123
Net income per share:				
Basic	\$ 0.28	\$ 0.30	\$ 0.51	\$ 0.53
Diluted	\$ 0.27	\$ 0.29	\$ 0.49	\$ 0.51

The potentially dilutive shares presented above do not include the anti-dilutive effect of approximately 4,306,000 and 3,388,000 potential common shares for the three months ended November 30, 2007 and 2006, respectively and approximately 3,908,000 and 3,385,000 potential common shares for the six months ended November 30, 2007 and 2006, respectively.

5. Acquisition

On June 1, 2007, the Company completed the acquisition of Compliance Solutions (UK) Ltd. (Compliance Solutions), a United Kingdom-based provider of regulatory compliance services to investment advisors, hedge funds, private equity and venture capital firms, insurance companies and other financial institutions. The Company paid approximately \$8.2 million for the acquisition, consisting of \$6.0 million in cash and \$2.2 million in the Company's stock.

In accordance with SFAS No. 141, Business Combinations, the Company will allocate the purchase price of Compliance Solutions based on the fair value of the assets acquired and liabilities assumed. As of November 30, 2007, the \$8.2 million purchase price has been allocated entirely to goodwill, pending completion of the Company's valuation study. The Company is considering a number of factors in performing this valuation, including the valuation of the identifiable intangible assets. Assuming Compliance Solutions was acquired on June 1, 2006, the pro forma impact to the Company's revenue and net income was insignificant for the six months ended November 30, 2006.

6. Intangible Assets and Goodwill

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

	As of November 30, 2007			As of May 31, 2007		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships (2 4 years)	\$ 5,248	\$ (5,160)	\$ 88	\$ 5,248	\$ (4,942)	\$ 306
Associate and customer database (1 - 5 years)	1,766	(1,620)	146	1,766	(1,513)	253
Non-compete agreements (1 4 years)	802	(802)		802	(789)	13

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Developed technology (3 years)	520	(520)		520	(520)	
Trade name and trademark (indefinite life)	82		82	82		82
Total	\$ 8,418	\$ (8,102)	\$ 316	\$ 8,418	\$ (7,764)	\$ 654

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and other intangible assets with indeterminate lives are not subject to amortization but are tested for impairment annually or whenever events or changes in circumstances indicate that the asset might be impaired. Intangible assets with finite lives continue to be subject to amortization, and any impairment is determined in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. There were no indicators of impairment as of November 30, 2007.

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The Company recorded amortization expense of \$84,000 and \$344,000 for the three months ended November 30, 2007 and 2006, respectively and \$338,000 and \$762,000 for the six months ended November 30, 2007 and 2006, respectively. Estimated intangible asset amortization expense (based on existing intangible assets and excluding any intangible assets and related amortization that may be identified from the pending reviews of the acquisitions of Compliance Solutions or of Domenica B.V., acquired subsequent to November 30, 2007 see Note 12 *Subsequent Event*) for the years ending May 31, 2008 and 2009 is \$505,000 and \$67,000, respectively. Amortization of the Company's identified intangible assets with finite lives will be complete as of the end of fiscal 2009.

7. Segment Reporting

In accordance with the requirements of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company discloses information regarding operations outside of the United States. The Company operates as one segment. The accounting policies for the domestic and international operations are the same as those described in Note 2-*Summary of Significant Accounting Policies* in the Notes to Consolidated Financial Statements included in the Company's 2007 Annual Report on Form 10-K for the fiscal year ended May 31, 2007. Summarized financial information regarding the Company's domestic and international operations is shown in the following table (amounts in thousands):

	Revenue for the three months ended		Revenue for the six months ended		Long-Lived Assets as of	
	November 30,		November 30,		November 30,	May 31,
	2007	2006	2007	2006	2007(1)	2007(1)
United States	\$ 151,042	\$ 138,965	\$ 296,869	\$ 267,163	\$ 31,403	\$ 29,720
The Netherlands	19,431	18,365	35,893	34,054	3,362	3,020
Other	36,165	25,474	67,996	46,694	3,580	2,607
Total	\$ 206,638	\$ 182,804	\$ 400,758	\$ 347,911	\$ 38,345	\$ 35,347

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

8. Stock-Based Compensation Plans*Stock Options and Restricted Stock*

As of November 30, 2007, the Company had outstanding grants under the following share-based compensation plans:

2004 Performance Incentive Plan (2004 Plan) The 2004 Plan serves as the successor to the 1999 Long Term Incentive Plan (1999 Plan). A total of 5,500,000 new shares of common stock were made available for awards to employees and non-employee directors and may include, but are not limited to, stock options and restricted stock grants. Stock options vest in equal annual installments over four years and terminate ten years from the dates of grant. Restricted stock award vesting is determined on an individual grant basis. As of November 30, 2007, 1,633,000 shares were available for award grant purposes under the 2004 Plan.

The 1999 Plan was terminated in 2004, except as to the outstanding options. Such options vest in equal annual installments over four years and terminate ten years from the dates of grant. There is a rollover provision to the 2004 Plan if a then-outstanding award expires or terminates without having become vested or exercised.

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The following table summarizes the stock option activity for the six months ended November 30, 2007 (number of options and intrinsic value in thousands):

	Number of Shares Subject to Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at May 31, 2007	9,186	\$ 20.88	7.39	\$ 100,706
Granted, at fair market value	245	\$ 29.50		
Exercised	(858)	\$ 12.39		\$ 16,306
Forfeited	(370)	\$ 26.56		
Outstanding at November 30, 2007	8,203	\$ 21.77	7.12	\$ 25,790
Exercisable at November 30, 2007	3,692	\$ 15.97	5.82	\$ 21,688

Stock-Based Compensation Expense

The Company's income before income taxes included compensation expense for the three months ended November 30, 2007 and 2006 of \$5.3 million and \$4.7 million, respectively, and for the six months ended November 30, 2007 and 2006 of \$11.3 million and \$9.4 million, respectively, related to stock-based compensation arrangements (including employee stock options, restricted stock grants and employee stock purchases made via the ESPP). There were no capitalized share-based compensation costs, for the three and six months ended November 30, 2007 and 2006.

Tax benefits and excess tax benefits resulting from the exercise of stock options are reflected as financing cash flows in the Company's statements of cash flows. For the six months ended November 30, 2007 and 2006, excess tax benefits totaled \$2.2 million and \$1.2 million.

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 2008 and the exercise price times the number of shares that would have been received by the option holders if they had exercised their in the money options on November 30, 2007. This amount will change based on the fair market value of the Company's stock. The aggregate intrinsic value of stock options exercised for the six months ended November 30, 2007 and 2006 was \$16.3 million and \$7.8 million, respectively. As of November 30, 2007, there was \$44.3 million of total unrecognized compensation cost related to stock-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 32 months.

Net cash proceeds from stock option exercises for the six months ended November 30, 2007 and 2006 was \$10.6 million and \$6.0 million, respectively. The Company's policy is to issue shares from its authorized shares upon the exercise of stock options.

Employee Stock Purchase Plan

The Company's stockholders approved the ESPP in October 2000. Under the terms of the ESPP, a total of 2,400,000 shares of common stock may be issued. The ESPP allows for qualified employees (as defined in the ESPP) to participate in the purchase of designated shares of the Company's common stock at a price equal to 85% of the lesser of the fair market value of common stock at the beginning or end of each semi-annual stock purchase period. The Company issued 143,000 and 273,000 shares of common stock pursuant to this plan for the six months ended November 30, 2007 and the year ended May 31, 2007, respectively. There are 1,169,000 shares of common stock available for issuance under the ESPP as of November 30, 2007.

Table of Contents*Provision for Income Taxes under SFAS 123 (R)*

The provision for income taxes decreased from \$11.6 million for the three months ended November 30, 2006 to \$10.6 million for the three months ended November 30, 2007. The effective tax rate was 44.8% for the second quarter of fiscal 2008 and 44.1% for the second quarter of fiscal 2007. The effective tax rate increased as a result of the Company's inability to recognize a larger tax benefit relative to the amount of stock-based compensation expense in the second quarter of fiscal 2008. Under SFAS 123 (R), the Company cannot recognize a potential tax benefit for certain incentive stock option (ISO) grants unless and until the holder exercises his or her options and then sells the shares within a certain period of time. In addition, the Company can only recognize a potential tax benefit for employees' acquisition and subsequent sale of shares purchased through the ESPP if the sale occurs within a certain defined period.

As a result, the Company's provision for income taxes is likely to fluctuate from historical rates for the foreseeable future. Further, under SFAS 123 (R), these potential tax benefits associated with ISO grants fully vested at the date of adoption of SFAS 123 (R) will be recognized as additions to paid-in capital when and if those options are exercised and not as a reduction to the Company's tax provision. The Company recognized a benefit of approximately \$958,000 related to stock-based compensation for nonqualified stock options expensed and for eligible disqualifying ISO exercises during the second quarter of fiscal 2008 compared with \$790,000 in the same quarter of the prior fiscal year. The timing and amount of eligible disqualifying ISO exercises cannot be predicted. Beginning with grants in fiscal 2007, the Company began and intends to continue to primarily grant nonqualified stock options to employees in the United States.

9. Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 effective with the first quarter of fiscal 2008. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, the Company increased its liability for unrecognized tax benefits by \$656,000 with a corresponding decrease to retained earnings on June 1, 2007.

As of November 30, 2007, the Company's total liability for unrecognized gross tax benefits was \$667,000, all of which, if ultimately recognized, would favorably impact the effective tax rate in future periods. All of this benefit has been classified as a long-term liability as of November 30, 2007, since it is unlikely that any of the unrecognized tax benefits will change significantly within 12 months.

The Company's major income tax jurisdiction is the U.S, with federal income taxes, subject to examination for fiscal 2005 and thereafter. For states within the U.S. in which the Company does significant business, the Company remains subject to examination for fiscal 2004 and thereafter. Major foreign jurisdictions in Europe remain open for fiscal years ended 2002 and thereafter.

The Company continues to recognize interest expense and penalties related to income tax as a part of its provision for income taxes. As of November 30, 2007, the Company has provided \$75,000 of accrued interest and penalties as a component of the liability for unrecognized tax benefits.

10. Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS 141(revised 2007), Business Combinations (SFAS 141(R)). SFAS 141(R) will significantly change how business combinations are accounted for and will be effective for business combinations the Company consummates on June 1, 2009 and thereafter.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-11 (EITF Issue No. 06-11), Accounting for Income Tax Benefits of Dividends on Shared-Based Payment Awards . EITF Issue No 06-11

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requires that tax benefits generated by dividends paid during the vesting period on certain equity-classified share-based compensation awards be treated as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. EITF Issue No. 06-11 is effective beginning with the 2009 fiscal year. The Company is analyzing the impact of EITF Issue No. 06-11 on its consolidated financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FAS 115* (SFAS 159), which permits companies to measure certain financial assets and financial liabilities at fair value. Under SFAS 159, companies that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis. SFAS 159 establishes presentation and disclosure requirements to clarify the effect of a company's election on its earnings but does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. SFAS 159 is effective as of the beginning of our 2009 fiscal year. The Company does not expect the adoption of SFAS 159 to have a material impact on its consolidated financial position or results of operations.

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

11. Supplemental Cash Flow Information

The Statement of Cash Flows for the six months ended November 30, 2007 does not include under the caption *cash flows from investing activities* the non-cash issuance of 66,715 shares of the Company's common stock held in treasury, representing \$2.2 million of the \$8.2 million purchase price for Compliance Solutions. The Statement of Cash Flows for the six months ended November 30, 2006 does not include under the caption *cash flows from investing activities* the non-cash issuance of 65,170 shares of the Company's common stock, representing 50% of the \$3.0 million purchase price for the remaining 20% of the outstanding shares of Nordic Spring.

The Statement of Cash Flows for the six months ended November 30, 2007 and 2006 does not include under the caption *cash flows from financing activities* the non-cash cancellation of 10,000 and 289,538 shares, respectively, of the Company's common stock that had been classified as treasury stock. In accordance with the amendment to the Company's 2004 Performance Incentive Plan that was approved by shareholders during the second quarter of fiscal 2007, the Company was no longer able to reissue these shares at a future date.

12. Subsequent Event

On December 18, 2007, the Company completed the acquisition of Domenica B.V., a Netherlands-based provider of actuarial services to pension and life insurance companies. The Company paid approximately \$19.6 million in cash for all of the outstanding shares of Domenica and agreed to make additional earn-out payments based upon the achievement of certain financial metrics for the acquired operations in calendar years ended December 31, 2007 and 2008.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes. This discussion and analysis contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to expectations concerning matters that are not historical facts. Such forward-looking statements may be identified by words such as *anticipates*, *believes*,

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can, continue, could, estimates, expects, intends, may, plans, potential, predicts, should, or w these terms or other comparable terminology. These statements, and all phases of our operations, are subject to known and unknown risks, uncertainties and other factors, some of which are identified in Item 1A-Risk Factors below and in our report on Form 10-K for the year ended May 31, 2007 (File No. 0-32113). Readers are cautioned not to place undue reliance on these forward-looking statements. Our actual results, levels of activity, performance or achievements and those of our industry may be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. We undertake no obligation to update the forward-looking statements in this filing. References in this filing to Resources Connection, Resources Global Professionals, Resources Global, the Company, we, us, and our refer to Resources Connection, Inc. and subsidiaries.

Overview

Resources Global is a multi-national professional services firm that provides experienced finance and accounting, risk management and internal audit, information management, human capital, supply chain management and legal services professionals to clients on a project basis. We assist our clients with discrete projects requiring specialized expertise in:

finance and accounting services, such as mergers and acquisitions due diligence, financial analyses (e.g., product costing and margin analyses), corporate reorganizations, budgeting and forecasting, audit preparation, public entity reporting and tax-related projects;

information management services, such as financial system/enterprise resource planning implementation and post implementation optimization;

human capital services, such as change management and compensation program design and implementation;

risk management and internal audit services (provided via our subsidiary Resources Audit Solutions or RAS), including compliance reviews, internal audit co-sourcing and assisting clients with their compliance efforts under the Sarbanes-Oxley Act of 2002 (Sarbanes);

supply chain management (SCM) services, such as leading strategic sourcing efforts, contract negotiations and purchasing strategy; and

legal services such as providing attorneys, paralegals and contract managers to assist clients (including law firms) with project-based or peak period needs.

We were founded in June 1996 as a division of Deloitte & Touche and operated as Resources Connection, LLC, a wholly owned subsidiary of Deloitte & Touche, from January 1997 until April 1999. In November 1998, our management formed RC Transaction Corp., renamed Resources Connection, Inc., to raise capital for an intended management-led buyout. In April 1999, we completed the management-led buyout in partnership with several investors. In December 2000, we completed our initial public offering of common stock and began trading on the NASDAQ. We currently trade on the NASDAQ Global Select Market. In January 2005, we announced the change of our operating entity name to Resources Global Professionals to better reflect the Company's global capabilities.

The following table summarizes for each fiscal year the number of offices opened, international expansion and the creation of additional service lines.

Fiscal Year	Number of United States Offices Opened	Number of International Offices Opened	Service Line Established
1997	Nine		Finance and accounting services

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1998	Nine		
1999	Ten		Information management services
2000	Four	Three	Human capital services
2001	Nine	One	
2002	Two		
2003	Six	One	RAS; SCM (via acquisition)

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Fiscal Year	Number of United States Offices Opened	Number of International Offices Opened	Service Line Established
2004	Two opened; two consolidation closures	Seven opened via acquisition; one organic	
2005	Two opened; two consolidation closures	One opened via acquisition; two organic	Legal services
2006	Three	Two opened via acquisition; eight organic	
2007	One	Eight organic opened; three consolidation closures	
2008	Two (including corporate headquarters)	Two opened via acquisition; one organic; two consolidation closures	

As of November 30, 2007, we served our clients through 55 offices in the United States and 32 offices abroad.

Critical Accounting Policies

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

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

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

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

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

have reflected in the Consolidated Statements of Income, an adjustment of tax expense may need to be recorded and this adjustment may materially affect the Company's future financial results.

Revenue recognition We generally charge our clients on an hourly basis for the professional services of our associates. We recognize revenue once services have been rendered and invoice the majority of our clients in the United States on a weekly basis. Some of our clients served by our international operations are billed on a

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monthly basis. Our clients are contractually obligated to pay us for all hours billed. To a much lesser extent, we also earn revenue if a client hires one of our associates. This type of contractually non-refundable revenue is recognized at the time our client completes the hiring process.

Stock-based Compensation Under our 2004 Performance Incentive Plan, officers, employees, and outside directors have received or may receive grants of restricted stock, stock units, options to purchase common stock or, under our Employee Stock Purchase Plan (ESPP), may make employee stock purchases. Effective June 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123 revised, Share-Based Payment (SFAS 123 (R)). SFAS 123 (R) requires that the Company estimate the fair value of employee stock options on the date of grant using an option-pricing model. We have elected to use the Black-Scholes option-pricing model which takes into account assumptions regarding a number of highly complex and subjective variables. These variables include the expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. Additional variables to be considered are the expected term and risk-free interest rate over the expected term of our employee stock options. In addition, because stock-based compensation expense recognized in the Statement of Income is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123 (R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience. If facts and circumstances change and we employ different assumptions in the application of SFAS 123 (R) in future periods, the compensation expense recorded under SFAS 123 (R) may differ materially from the amount recorded in the current period.

The weighted average estimated fair value per share of employee stock options granted during the three months ended November 30, 2007 was \$10.13 using the Black-Scholes model with the following assumptions:

	Three months ended November 30, 2007
Expected volatility	39.9%
Risk-free interest rate	4.18-4.25%
Expected dividends	0.0%
Expected life	5.23 years

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The dividend yield assumption is based on our previous history of not paying dividends and our expectation that the special dividend paid in August 2007 is an isolated event. As permitted under Staff Accounting Bulletin No. 107 (SAB No. 107), the Company used the vanilla option term for measuring the expected life of stock option grants during the first nine months of fiscal 2007; under this option, a stock option grant with a 10 year contractual life and four year vesting would have an expected life of 6.25 years. After completion of a review of the Company's historical expected life of stock option grants, the Company modified its expected life to approximately 5.23 years for the grants made subsequent to the third quarter of fiscal 2007. Also, as permitted under SAB No. 107, the Company has used its historical volatility to estimate the expected volatility of the price of its common stock.

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

Three Months Ended November 30, 2007 Compared to Three Months Ended November 30, 2006

Computations of percentage change period over period are based upon our results, as rounded and presented herein.

Revenue. Revenue increased \$23.8 million, or 13.0%, to \$206.6 million for the three months ended November 30, 2007 from \$182.8 million for the three months ended November 30, 2006. The continued expansion of our scope of services and improved overall demand for our services resulted in more billable hours for our associates and an improvement in our average bill rate per hour, which triggered the increase in revenue. We believe our business

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expanded due in part to increasing market awareness of our ability to provide services. All service lines experienced growth in the second quarter of fiscal 2008 compared to fiscal 2007's second quarter (except for the RAS service line). We believe one of the reasons for the increase is that existing clients who had engaged us to provide services during their initial phase of compliance with Sarbanes began to engage us for new projects. Although we believe we have improved the awareness of our service offerings with clients and prospective clients in part because of assistance we have provided during the initial years of compliance with Sarbanes, there can be no assurance that there will be continuing demand for Sarbanes or related internal accounting control services or that our provision of such services will increase demand from our existing clients for our other service lines.

Average bill rates for the three months ended November 30, 2007 improved by 7.1% from the same period in the prior year. The increase in revenue was also driven by the increase in the number of associates on assignment from 3,195 at the end of the second quarter of fiscal 2007 to 3,319 at the end of the second quarter of fiscal 2008. We operated 87 and 82 offices during the second quarters of fiscal 2008 and fiscal 2007, respectively.

Revenue for the United States (U.S.) offices improved 8.6% or \$12.0 million from \$139.0 million for the three months ended November 30, 2006 to \$151.0 million for the three months ended November 30, 2007. Revenue for the Dutch practice improved 5.4% or \$1.0 million, from \$18.4 million for the three months ended November 30, 2006 to \$19.4 million for the three months ended November 30, 2007. The other international offices' revenue grew 42.0% or \$10.7 million, from \$25.5 million for the three months ended November 30, 2006 to \$36.2 million for the three months ended November 30, 2007. On a constant currency basis, international revenues would have been lower by about \$4.9 million in the second quarter of fiscal 2008 using the comparable fiscal 2007 second quarter conversion rates.

Our clients do not sign long-term contracts with us. Therefore, our future revenue or operating results cannot be reliably predicted from previous quarters or from extrapolation of past results.

Direct Cost of Services. Direct cost of services increased \$16.8 million, or 15.2%, to \$127.0 million for the three months ended November 30, 2007 from \$110.2 million for the three months ended November 30, 2006. The increase in direct cost of services was attributable to the previously described expansion of the scope of services resulting in more chargeable hours for our associates at higher average pay rates; overall, the average pay rate per hour increased by 7.4% year-over-year. The direct cost of services as a percentage of revenue (the direct cost of services percentage) was 61.5% and 60.3% for the three months ended November 30, 2007 and 2006, respectively. The direct cost of services percentage changed between the two quarters primarily because of vacation accrual expenses related to the Company's grant of an extra week of vacation for U.S. associates who met eligibility requirements; an increase in direct payroll expenses compared to hourly revenues; and an increase in client reimbursable expenses relative to revenue (client reimbursable expenses have a zero gross margin) as the amount of required travel related to client assignments increased.

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

Selling, General and Administrative Expenses. Selling, general and administrative expenses (S, G & A) increased as a percentage of revenue from 25.5% for the quarter ended November 30, 2006 to 26.9% for the quarter ended November 30, 2007. S, G & A increased \$8.8 million, or 18.8%, to \$55.5 million for the three months ended November 30, 2007 from \$46.7 million for the three months ended November 30, 2006. The change in S, G & A primarily stems from increased personnel and related benefit costs, in both our domestic and international markets. Management and administrative headcount grew from 766 at the end of the second quarter of fiscal 2007 to 884 at the end of the second quarter of fiscal 2008. After considering its accounts receivable aging statistics and other qualitative factors, the Company did not recognize any addition to its allowance for doubtful accounts in the second quarter of fiscal 2008.

Amortization and Depreciation Expense. Amortization of intangible assets decreased to \$84,000 in the second quarter of fiscal 2008 compared to \$344,000 in the prior year's second quarter. The Company has not completed an analysis of the allocation of goodwill related to its purchase of Compliance Solutions (UK) Ltd. in the first quarter

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of fiscal 2008 nor its acquisition of Domenica, B.V. subsequent to the end of the second quarter. The Company will consider a number of factors in performing this valuation, including a valuation of identifiable intangible assets but does not expect such a valuation to cause a material impact on its results of operations.

Depreciation expense increased from \$1.4 million for the three months ended November 30, 2006 to \$2.0 million for the three months ended November 30, 2007. The increase in depreciation was related to a higher asset base due to the investments made in offices relocated or expanded since November 2006, and investments in the Company's operating system and other information technology. Also, in October 2005, the Company completed the purchase of an office building in Irvine, California, for approximately \$9.3 million to use as its corporate office and domestic service center. The Company moved to the new location in July 2007. As the Company continues to invest in new offices and in expanded or new space for existing offices, the Company expects that depreciation expense will increase.

Interest Income. During the second quarter of fiscal 2008, interest income was \$1.6 million compared to interest income of \$2.0 million in the second quarter of fiscal 2007. The decrease in interest income is the result of a lower average cash balance available for investment in the second quarter of fiscal 2008 offset by improved interest rates compared to the prior year's second quarter. The Company's average cash balance declined during the second quarter of fiscal 2008 when the Company used approximately \$65.1 million to purchase its common stock. As a result of the use of cash for the stock purchase, as well as a special dividend of approximately \$60.7 million paid in the first quarter of fiscal 2008, the Company anticipates that its interest income will decline during the remainder of fiscal 2008 if rates are constant.

The Company has invested available cash in money market and commercial paper investments that have been classified as cash equivalents due to the short maturities of these investments. As of November 30, 2007, the Company also has \$11.0 million of investments in commercial paper and government-agency bonds with remaining maturity dates between three months and one year from the balance sheet date, which are classified as short-term investments and considered held-to-maturity securities. In addition, the Company also holds a \$6.0 million government-agency bond with a maturity date in excess of one year from the balance sheet date. This bond, classified as a long-term investment, matures in December 2008, has a coupon rate of 5.25% and has been classified in the November 30, 2007 consolidated balance sheet as a held-to-maturity security.

Income Taxes. The provision for income taxes decreased from \$11.6 million for the three months ended November 30, 2006 to \$10.6 million for the three months ended November 30, 2007. The provision declined primarily because of a reduction in the Company's pretax income in the second quarter of 2008 as compared to the second quarter of fiscal 2007 offset by an increase in the Company's effective tax rate between the two quarters. The effective tax rate was 44.8% for the second quarter of fiscal 2008 and 44.1% for the second quarter of fiscal 2007. The effective tax rate increased as a result of the Company's inability to recognize a larger tax benefit relative to the amount of stock-based compensation expense in the second quarter of fiscal 2008. Under SFAS 123 (R), the Company cannot recognize a potential tax benefit for certain incentive stock option (ISO) grants unless and until the holder exercises his or her options and then sells the shares within a certain period of time. In the second quarter of fiscal 2008, holders of ISOs exercised a smaller amount of options than in the comparable period of the prior year. In addition, the Company can only recognize a potential tax benefit for employees' acquisition and subsequent sale of shares purchased through the ESPP if the sale occurs within a certain defined period.

As a result, the Company's provision for income taxes is likely to fluctuate from historical rates for the foreseeable future. Further, under SFAS 123 (R), the potential tax benefits associated with ISO grants that were fully vested at the date of adoption of SFAS 123 (R) will be recognized as additions to paid-in capital when and if those options are exercised and not as a reduction to the Company's tax provision. The Company recognized a benefit of approximately \$958,000 related to stock-based compensation for nonqualified stock options expensed and for eligible disqualifying ISO exercises during the second quarter of fiscal 2008 compared with \$790,000 in the same quarter of the prior fiscal year. The timing and amount of eligible disqualifying ISO exercises cannot be predicted. Beginning with grants in fiscal 2007, the Company began and intends to continue to primarily grant nonqualified stock options to employees in the United States.

Periodically, the Company reviews the components of both book and taxable income to analyze the adequacy of the tax provision. There can be no assurance that the Company's effective tax rate will not increase in the future.

Table of Contents**Six Months Ended November 30, 2007 Compared to Six Months Ended November 30, 2006**

Computations of percentage change period over period are based upon our results, as rounded and presented herein.

Revenue. Revenue increased \$52.9 million, or 15.2%, to \$400.8 million for the six months ended November 30, 2007 from \$347.9 million for the six months ended November 30, 2006. The continued expansion of our scope of services and improved overall demand for our services resulted in more billable hours for our associates and an improvement in our average bill rate per hour, which triggered the increase in revenue.

Average bill rates improved by 6.7% for the six months ended November 30, 2007 compared to the average bill rate for the same period in the prior year. The increase in revenue was also driven by the increase in the number of associates on assignment from 3,195 at the end of the second quarter of fiscal 2007 to 3,319 at the end of the second quarter of fiscal 2008. We operated 87 and 82 offices in the first six months of fiscal 2008 and fiscal 2007, respectively.

Revenue for U.S. offices improved 11.1% or \$29.7 million from \$267.2 million for the six months ended November 30, 2006 to \$296.9 million for the six months ended November 30, 2007. Revenue for the Dutch practice improved 5.3% or \$1.8 million, from \$34.1 million for the six months ended November 30, 2006 to \$35.9 million for the six months ended November 30, 2007. The other international offices' revenue grew 45.6% or \$21.3 million, from \$46.7 million for the six months ended November 30, 2006 to \$68.0 million for the six months ended November 30, 2007. On a constant currency basis, international revenues would have been lower by about \$7.8 million in the first half of fiscal 2008 using the comparable period of fiscal 2007 conversion rates.

Direct Cost of Services. Direct cost of services increased \$37.6 million, or 17.9%, to \$247.7 million for the six months ended November 30, 2007 from \$210.1 million for the six months ended November 30, 2006. The increase in direct cost of services was attributable to the previously described expansion of the scope of services resulting in more chargeable hours for our associates at higher average pay rates; overall, the average pay rate per hour increased by 7.0% year-over-year. The direct cost of services percentage was 61.8% and 60.4% for the six months ended November 30, 2007 and 2006, respectively. The direct cost of services percentage changed between the two periods primarily because of vacation accrual expenses related to the Company's grant of an extra week of vacation for U.S. associates who met eligibility requirements; an increase in direct payroll expenses compared to hourly revenues; an increase in client reimbursable expenses relative to revenue (client reimbursable expenses have a zero gross margin) as the amount of required travel related to client assignments increased; and a decrease in conversion fees relative to the first six months of fiscal 2007 (conversion fees are recognized when one of the Company's professionals accepts an offer of permanent employment with a client and have a 100% gross margin).

Selling, General and Administrative Expenses. S, G & A increased as a percentage of revenue from 26.3% for the six months ended November 30, 2006 to 27.1% for the six months ended November 30, 2007. S, G & A increased \$17.0 million, or 18.6%, to \$108.5 million for the six months ended November 30, 2007 from \$91.5 million for the six months ended November 30, 2006. The change in S, G & A primarily stems from increased personnel and related benefit costs, in both our domestic and international markets. Management and administrative headcount grew from 766 at the end of the second quarter of fiscal 2007 to 884 at the end of the second quarter of fiscal 2008. Other factors that contributed to the increase in S, G & A in the first six months of fiscal 2008 compared to the first six months of fiscal 2007 were an increase in the amount of stock-based compensation expense and an increase in bonus expense as a result of the Company's improved revenue results.

Amortization and Depreciation Expense. Amortization of intangible assets decreased to \$338,000 in the first six months of fiscal 2008 compared to \$762,000 in the prior year's first six months as certain intangibles are now fully amortized.

Depreciation expense increased from \$2.8 million for the six months ended November 30, 2006 to \$3.9 million for the six months ended November 30, 2007. The increase in depreciation was related to a higher asset base due to

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the investments made in offices relocated or expanded since May 2006, and investments in the Company's operating system and other information technology.

Interest Income. During the first six months of fiscal 2008, interest income was \$4.2 million compared to interest income of \$3.9 million for the first six months of fiscal 2007. The increase is the result of a higher average balance available for investment in the first six months of fiscal 2008 as compared to the first six months of fiscal 2007, coupled with higher rates in the fiscal 2008 period. However, the Company's cash balance has been reduced since the beginning of fiscal 2008 primarily because of the payment of approximately \$60.7 million in a special dividend to shareholders in August 2007 and the purchase of approximately 2.9 million shares for approximately \$67.4 million, primarily in the second quarter.

Income Taxes. The provision for income taxes decreased from \$21.1 million for the six months ended November 30, 2006 to \$19.9 million for the six months ended November 30, 2007. The provision declined primarily because of a reduction in the Company's pretax income in the first half of fiscal 2008 compared to the first half of fiscal 2007 coupled with a decrease in the Company's effective tax rate between the two quarters. The effective tax rate was 44.7% for the first half of fiscal 2008 and 45.2% for the first half of fiscal 2007. The effective tax rate declined as a result of the Company being able to recognize a larger tax benefit related to stock-based compensation expense in the first half of fiscal 2008. Under SFAS 123 (R), the Company cannot recognize a potential tax benefit for certain incentive stock option (ISO) grants unless and until the holder exercises his or her options and then sells the shares within a certain period of time. In addition, the Company can only recognize a potential tax benefit for employees acquisition and subsequent sale of shares purchased through the ESPP if the sale occurs within a certain defined period.

As a result, the Company's provision for income taxes is likely to fluctuate from historical rates for the foreseeable future. Further, under SFAS 123 (R), the potential tax benefits associated with ISO grants that were fully vested at the date of adoption of SFAS 123 (R) will be recognized as additions to paid-in capital when and if those options are exercised and not as a reduction to the Company's tax provision. The Company recognized a benefit of approximately \$2.4 million related to stock-based compensation for nonqualified stock options expensed and for eligible disqualifying ISO exercises during the first half of fiscal 2008 compared with \$1.3 million in the first half of fiscal 2007. The timing and amount of eligible disqualifying ISO exercises cannot be predicted.

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

Liquidity and Capital Resources

Our primary source of liquidity is cash provided by our operations. On an annual basis, we have generated positive cash flows from operations since inception.

The Company has a \$3.0 million unsecured revolving credit facility with Bank of America (the Credit Agreement). The Credit Agreement allows the Company to choose the interest rate applicable to advances. The interest rate options are Bank of America's prime rate, a London Inter-Bank Offered (LIBOR) rate plus 1.5% or Bank of America's Grand Cayman Banking Center (IBOR) rate plus 1.5%. Interest, if any, is payable monthly. There is an annual facility fee of 0.25% payable on the unutilized portion of the Credit Agreement. The Credit Agreement, which was to expire December 1, 2007, has been renewed through December 1, 2009. As of November 30, 2007, the Company had \$2.4 million available under the terms of the Credit Agreement as Bank of America has issued \$600,000 of outstanding letters of credit in favor of third parties related to operating leases. The Company is in compliance with all covenants included in the Credit Agreement.

Net cash provided by operating activities was \$19.8 million for the six months ended November 30, 2007 compared to \$24.2 million for the six months ended November 30, 2006. Cash provided by operations in the first six months of fiscal 2008 resulted from net income of \$24.6 million, adjusted for non-cash items of \$11.1 million, and offset by net cash used for changes in operating assets and liabilities of \$15.9 million. In the first six months of fiscal 2007, cash provided by operations resulted from net income of the Company of \$25.6 million, adjusted for non-cash

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items of \$10.4 million, and offset by net cash used for changes in operating assets and liabilities of \$11.8 million. Non-cash items include expense for stock-based compensation; these charges do not reflect an actual cash outflow from the Company but are an estimate of the fair value of the services provided by employees and directors in exchange for stock option grants and purchase of stock through the ESPP. As of November 30, 2007, the Company had \$103.7 million of cash and cash equivalents, \$11.0 million of investments in commercial paper and short-term U.S. government agency bonds and \$6.0 million of long-term U.S. government agency bonds.

Net cash provided by investing activities was \$72.8 million for the first six months of fiscal 2008 compared to a net use of cash of \$8.1 million in the first six months of fiscal 2007. Cash used to invest in short-term and long-term marketable securities (commercial paper and government agency bonds) net of cash received from the redemption of short-term and long-term investments, resulted in a net source of \$85.0 million in the first six months of fiscal 2008 compared to a net use of \$2.0 million in the first six months of fiscal 2007. The Company utilized some of its portfolio of investments in the first six months of fiscal 2008 to provide funding for the dividend and stock purchases discussed in the financing activities paragraph below. During the first quarter of fiscal 2008, the Company purchased Compliance Solutions (UK) Ltd., a United Kingdom-based provider of regulatory compliance services, for approximately \$8.2 million, including cash of approximately \$6.0 million. In addition, the Company spent approximately \$6.2 million on property and equipment in the first six months of fiscal 2008, compared to \$4.6 million in the first six months of fiscal 2007.

Net cash used in financing activities totaled \$111.4 million for the six months ended November 30, 2007, compared to \$4.4 million for the six months ended November 30, 2006. The primary cause of the increase between the two periods was the payment by the Company in August 2007 of a special cash dividend of \$1.25 per share of common stock for an aggregate amount of approximately \$60.7 million. No dividend was paid in the first half of fiscal 2007. In addition, the Company also used cash during the six months ended November 30, 2007 and 2006 to repurchase approximately 2.9 million and 600,000 shares of the Company's common stock, respectively, for approximately \$67.4 million and \$14.1 million, respectively. In the first half of fiscal 2008, the Company received cash from stock option exercises and purchases of common stock through the ESPP of \$14.5 million compared to \$8.5 million in the corresponding period of fiscal 2007.

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

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is contained in Note 10 to the Consolidated Financial Statements for the six months ended November 30, 2007 and 2006.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. At the end of the second quarter of fiscal 2008, we had approximately \$120.7 million of cash, highly liquid short-term investments and long-term investments. Securities that the Company has the ability and positive intent to hold to maturity are carried at amortized cost. These securities consist of commercial paper and government-agency bonds. Cost approximates market for these securities. All income generated from these current investments is recorded as interest income.

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

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

For the quarter ended November 30, 2007, approximately 26.9% of the Company's revenues were generated outside of the United States. As a result, our operating results are subject to fluctuations in the exchange rates of foreign currencies in relation to the U.S. dollar. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates prevailing during the period. Thus, as the value of the U.S. dollar fluctuates relative to the currencies in our non-U.S. based operations, our reported results may vary.

Assets and liabilities of our non-U.S. based operations are translated into U.S. dollars at the exchange rate effective at the end of each monthly reporting period. Approximately 82% of our balances of cash, short-term investments and long-term investments as of November 30, 2007 were denominated in U.S. dollars. The remainder of our cash was comprised primarily of cash balances translated from Euros, British Pounds, Hong Kong Dollars, Swedish Krona or Japanese Yen. The difference resulting from the translation each period of assets and liabilities of our non-U.S. based operations are recorded in stockholders' equity as a component of Accumulated Other Comprehensive Income.

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

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the second quarter of fiscal 2008, the Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended (the Exchange Act). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of November 30, 2007 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There was no change in the Company's internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act, during the Company's quarter ended November 30, 2007 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings

We are not a party to any material legal proceedings.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2007, which was filed with the Securities and Exchange Commission on July 25, 2007. For convenience, our updated risk factors are included in this Item 1A. below. The order in which the risks appear is not intended as an indication of their relative weight or importance.

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

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

provide our associates with full-time employment;

obtain the type of challenging and high-quality projects that our associates seek;

pay competitive compensation and provide competitive benefits; and

provide our associates with flexibility as to hours worked and assignment of client engagements.

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

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

We have historically used stock options as a key 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. Recent activity, such as the decline in our stock price and the non-passage of the amendment to approve an increase to the number of shares available for option grants, may make it more difficult for us to effectively use equity compensation as a key component of our employee compensation program. In addition, as a result of our adoption of SFAS 123(R) in the first quarter of fiscal 2007, the use of stock options and other stock-based awards to attract and retain employees could become more limited due to the possible impact on our results of operations. These developments could make it more difficult to attract, retain and motivate employees.

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

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

consulting firms;

local, regional and national accounting firms;

independent contractors;

traditional and Internet-based staffing firms; and

the in-house resources of our clients.

We cannot assure you that we will be able to compete effectively against existing or future competitors. Many of our competitors have significantly greater financial resources, greater revenues and greater name recognition, which may afford them an advantage in attracting and retaining clients and associates. In addition, our competitors may be

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able to respond more quickly to changes in companies' needs and developments in the professional services industry. ***An economic downturn or change in the use of outsourced professional services associates could adversely affect our business.***

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

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

We do not have long-term agreements with our clients for the provision of services. The success of our business is dependent on our ability to secure new projects from clients. For example, if we are unable to secure new client projects because of improvements in our competitors' service offerings, or because of a change in government regulatory requirements, or because of an economic downturn decreasing the demand for outsourced professional services, our business is likely to be materially adversely affected. New impediments to our ability to secure projects from clients may develop over time, such as the increasing use by large clients of in-house procurement groups that manage their relationship with service providers.

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

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

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

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

We grew rapidly from our inception in 1996 until 2001 by opening new offices and by increasing the volume of services we provided through existing offices. We experienced a decline in revenue in fiscal 2002, but revenue has increased in each subsequent fiscal year. However, there can be no assurance that we will be able to maintain or expand our market presence in our current locations or to successfully enter other markets or locations. Our ability to continue to grow our business will depend upon a number of factors, including our ability to:

grow our client base;

expand profitably into new cities;

provide additional professional services offerings;

hire qualified and experienced associates;

maintain margins in the face of pricing pressures;

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manage costs; and

maintain or grow revenues for both Sarbanes-related and internal audit related services as well as other service offerings from clients who have initially engaged us for Sarbanes compliance.

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

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

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

difficulties in staffing and managing foreign offices as a result of, among other things, distance, language and cultural differences;

less flexible labor laws and regulations;

expenses associated with customizing our professional services for clients in foreign countries;

foreign currency exchange rate fluctuations, when we sell our professional services in denominations other than United States dollars;

protectionist laws and business practices that favor local companies;

political and economic instability in some international markets;

multiple, conflicting and changing government laws and regulations;

trade barriers;

reduced protection for intellectual property rights in some countries; and

potentially adverse tax consequences.

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

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

diversion of management's attention from other business concerns;

failure to integrate the acquired company with our existing business;

failure to motivate, or loss of, key employees from either our existing business or the acquired business;

potential impairment of relationships with our employees and clients;

additional operating expenses not offset by additional revenue;

incurrence of significant non-recurring charges;

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incurrence of additional debt with restrictive covenants or other limitations;

dilution of our stock as a result of issuing equity securities; and

assumption of liabilities of the acquired company.

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

Our future success depends upon the continued employment of Donald B. Murray, our chief executive officer. The departure of Mr. Murray or other members of our management team could significantly disrupt our operations. Key members of our senior management team, among others, include Karen M. Ferguson, an executive vice president and president of North American operations; Anthony Cherbak, executive vice president and chief operating officer; Kate W. Duchene, chief legal officer and executive vice president of human relations; Nathan W. Franke, executive vice president and chief financial officer; and John D. Bower, senior vice president, finance. We do not have employment agreements with Mr. Cherbak, Ms. Duchene, Mr. Franke or Mr. Bower.

Our quarterly financial results may be subject to significant fluctuations that may increase the volatility of our stock price.

Our results of operations could vary significantly from quarter to quarter. Factors that could affect our quarterly operating results include:

our ability to attract new clients and retain current clients;

the mix of client projects;

the announcement or introduction of new services by us or any of our competitors;

the expansion of the professional services offered by us or any of our competitors into new locations both nationally and internationally;

changes in the demand for our services by our clients;

the entry of new competitors into any of our markets;

the number of associates eligible for our offered benefits as the average length of employment with the Company increases;

the number of holidays in a quarter, particularly the day of the week on which they occur;

changes in the pricing of our professional services or those of our competitors;

the amount and timing of operating costs and capital expenditures relating to management and expansion of our business;

the timing of acquisitions and related costs, such as compensation charges that fluctuate based on the market price of our common stock; and

the periodic fourth quarter consisting of 14 weeks.

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

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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 control over financial reporting as of the end of each fiscal year. Section 404 also requires our independent registered public accountant to attest to, and report on, management's assessment of our internal control over financial reporting.

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

Although our management has determined, and our independent registered public accountant has attested, that internal control over financial reporting was effective as of May 31, 2007, we cannot assure you that we or our independent registered public accountant will not identify a material weakness in our internal control over financial reporting in the future. A material weakness in our internal control over financial reporting would require management and our independent registered public accountant to evaluate our internal control over financial reporting 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 and energy industries, we are subject to industry-specific regulations, including licensing and reporting requirements. Complying with these requirements is costly and, if we fail to comply, we could be prevented from rendering services to clients in those industries in the future. Additionally, changes in these requirements, or in other laws applicable to us, in the future could increase our costs of compliance.

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

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

authorize our board of directors to establish one or more series of undesignated preferred stock, the terms of which can be determined by the board of directors at the time of issuance;

divide our board of directors into three classes of directors, with each class serving a staggered three-year term. Because the classification of the board of directors generally increases the difficulty of replacing a majority of the directors, it may tend to discourage a third party from making a tender offer or otherwise

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attempting to obtain control of us and may make it difficult to change the composition of the board of directors;

prohibit cumulative voting in the election of directors which, if not prohibited, could allow a minority stockholder holding a sufficient percentage of a class of shares to ensure the election of one or more directors;

require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing;

state that special meetings of our stockholders may be called only by the chairman of the board of directors, by our chief executive officer, by the board of directors after a resolution is adopted by a majority of the total number of authorized directors, or by the holders of not less than 10% of our outstanding voting stock;

establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting;

provide that certain provisions of our certificate of incorporation can be amended only by supermajority vote of the outstanding shares and that our bylaws can be amended only by supermajority vote of the outstanding shares of our board of directors;

allow our directors, not our stockholders, to fill vacancies on our board of directors; and

provide that the authorized number of directors may be changed only by resolution of the board of directors.

The Company's board of directors has adopted a stockholder rights plan, which is described further in Note 10 *Stockholders' Equity* of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2007. The existence of this rights plan may also have the effect of delaying, deferring or preventing a change of control of our Company or our management by deterring acquisitions of our stock not approved by our board of directors.

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

Effective as of the beginning of the first quarter of fiscal 2007, we were required to adopt SFAS 123 (R), which requires the measurement and recognition of compensation expense for all stock-based compensation based on estimated values. Thus, operating results beginning with fiscal 2007 contain a non-cash charge for stock-based compensation expense related to employee stock options and our employee stock purchase plan. The application of SFAS 123 (R) generally requires the use of an option-pricing model to determine the 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 in accordance with SFAS 123(R) and Staff Accounting Bulletin No. 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

As a result of the adoption of SFAS 123 (R), our earnings are lower than they would have been had we not been required to adopt SFAS 123 (R). There also is variability in our net income due to the timing of the exercise of options that trigger disqualifying dispositions which impact our tax provision. This will continue to be the case for

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future periods. We cannot predict the effect that this adverse impact on our reported operating results will have on the trading price of our common stock.

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

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

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In July 2007, our board of directors approved a new stock repurchase program, authorizing the repurchase, at the discretion of our Company's senior executives, of our common stock for an aggregate dollar limit not to exceed \$150 million. The table below provides information regarding our stock purchases made during the second quarter of fiscal 2008 under our stock repurchase program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
August 26, 2007 – September 22, 2007		\$		\$
September 23, 2007 – October 20, 2007	2,360,433	\$ 23.30	2,360,433	\$ 92,750,133
October 21, 2007 – November 24, 2007	480,000	\$ 21.15	480,000	\$ 82,598,899
Total August 26, 2007 – November 24, 2007	2,840,433	\$ 22.94	2,840,433	\$ 82,598,899

Item 3. Defaults upon Senior Securities

None.

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

On October 18, 2007, the Company held its annual meeting of stockholders. The following matters were presented to stockholders for approval:

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

Nominee	Shares For	Shares Withheld
Neil Dimick	42,644,743	1,720,105
Karen M. Ferguson	44,030,701	344,146

The continuing directors, whose terms of office did not expire at the meeting, are Thomas D. Christopoul, Robert F. Kisting, Donald B. Murray, A. Robert Pisano and Jolene Sykes Sarkis. (1)

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

Shares For	Against	Abstain	Broker Non-Votes
15,317,695	26,215,140	14,334	2,817,679

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

Shares For	Against	Abstain
44,318,349	39,555	6,943

Item 5. Other Information

On October 24, 2007, the board of directors announced the election of Anne Shih to fill a vacancy on the Company's board.

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Item 6. Exhibits

a) Exhibits

- 10.30 Amendment No. 3 to Loan Agreement, dated November 28, 2007 by and among Resources Connection, Inc., Resources Connection LLC and Bank of America, N.A.*
- 10.31 Text of offer letter, dated November 6, 2007 between Nathan W. Franke and Resources Global Professionals (incorporated by reference to Exhibit 99.2 to the Company's Form 8-K filed with the SEC on November 8, 2007).
- 31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

- (1) Stephen J. Giusto
resigned as a
director of the
Company and its
Chief Financial
Officer in
September 2007.

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SIGNATURES

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

Resources Connection, Inc.

Date: January 3, 2008

/s/ Donald B. Murray

Donald B. Murray

President and Chief Executive Officer

Date: January 3, 2008

/s/ Nathan W. Franke

Nathan W. Franke

Chief Financial Officer and

Executive Vice President

(Principal Financial Officer)

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EXHIBIT INDEX

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* Filed herewith