

RESOURCES CONNECTION INC  
Form 10-Q  
October 03, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 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 August 24, 2013**

**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**

**33-0832424**  
**(I.R.S. Employer**

**Incorporation or Organization)**

**Identification No.)**

**17101 Armstrong Avenue, Irvine, California 92614**

**(Address of principal executive offices) (Zip Code)**

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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 September 23, 2013, there were approximately 39,724,905 shares of the registrant's common stock, \$0.01 par value per share, outstanding.

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****RESOURCES CONNECTION, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(Amounts in thousands, except par value per share)**

|   | <b>August 24,<br/>2013</b> | <b>May 25,<br/>2013</b> |
|---|----------------------------|-------------------------|
| <b>ASSETS</b>   |                            |                         |
| Current assets:   |                            |                         |
| Cash and cash equivalents   | \$ 96,404                  | \$ 94,016               |
| Short-term investments  | 24,983                     | 24,996                  |
| Trade accounts receivable, net of allowance for doubtful accounts of \$3,351 and \$3,428 as of August 24, 2013 and May 25, 2013, respectively | 81,354                     | 84,194                  |
| Prepaid expenses and other current assets   | 4,874                      | 4,594                   |
| Income taxes receivable   |                            | 1,228                   |
| Deferred income taxes   | 8,030                      | 8,149                   |
| Total current assets  | 215,645                    | 217,177                 |
| Goodwill  | 175,001                    | 174,275                 |
| Intangible assets, net  | 2,281                      | 2,659                   |
| Property and equipment, net   | 21,558                     | 21,087                  |
| Deferred income taxes   | 816                        |                         |
| Other assets  | 2,346                      | 2,442                   |
| Total assets  | \$ 417,647                 | \$ 417,640              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                            |                         |
| Current liabilities:  |                            |                         |
| Accounts payable and accrued expenses   | \$ 15,151                  | \$ 15,722               |
| Accrued salaries and related obligations  | 35,498                     | 39,280                  |
| Other liabilities   | 6,584                      | 6,331                   |
| Total current liabilities   | 57,233                     | 61,333                  |
| Other long-term liabilities   | 3,966                      | 3,980                   |
| Total liabilities   | 61,199                     | 65,313                  |
| Commitments and contingencies   |                            |                         |
| Stockholders' equity:   |                            |                         |

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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; 56,532 and 56,082 shares issued, and 39,843 and 39,705 shares outstanding as of August 24, 2013 and May 25, 2013, respectively

|  |            |            |
|--|------------|------------|
|  | 565        | 561        |
| Additional paid-in capital   | 354,348    | 347,790    |
| Accumulated other comprehensive loss   | (3,102)    | (3,958)    |
| Retained earnings  | 291,414    | 290,549    |
| Treasury stock at cost, 16,689 and 16,377 shares at August 24, 2013 and May 25, 2013, respectively | (286,777)  | (282,615)  |
| Total stockholders' equity   | 356,448    | 352,327    |
| Total liabilities and stockholders' equity   | \$ 417,647 | \$ 417,640 |

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

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**RESOURCES CONNECTION, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

**(Amounts in thousands, except per share amounts)**

|  | <b>Three Months Ended</b>  |                            |
|--|----------------------------|----------------------------|
|  | <b>August 24,<br/>2013</b> | <b>August 25,<br/>2012</b> |
| Revenue  | \$ 131,704                 | \$ 136,933                 |
| Direct cost of services, primarily payroll and related taxes for professional services employees | 81,994                     | 83,544                     |
| Gross margin   | 49,710                     | 53,389                     |
| Selling, general and administrative expenses   | 41,612                     | 42,060                     |
| Amortization of intangible assets  | 417                        | 426                        |
| Depreciation expense   | 961                        | 1,191                      |
| Income from operations   | 6,720                      | 9,712                      |
| Interest income  | (39)                       | (48)                       |
| Income before provision for income taxes   | 6,759                      | 9,760                      |
| Provision for income taxes   | 3,106                      | 4,928                      |
| Net income   | \$ 3,653                   | \$ 4,832                   |
| Net income per common share:   |                            |                            |
| Basic  | \$ 0.09                    | \$ 0.12                    |
| Diluted  | \$ 0.09                    | \$ 0.12                    |
| Weighted average common shares outstanding:  |                            |                            |
| Basic  | 39,826                     | 41,720                     |
| Diluted  | 39,844                     | 41,774                     |
| Cash dividends declared per common share   | \$ 0.07                    | \$ 0.06                    |

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

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**RESOURCES CONNECTION, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

**(Amounts in thousands)**

|   | <b>Three Months Ended</b>  |                            |
|---|----------------------------|----------------------------|
|   | <b>August 24,<br/>2013</b> | <b>August 25,<br/>2012</b> |
| <b>COMPREHENSIVE INCOME:</b>                        |                            |                            |
| Net income  | \$ 3,653                   | \$ 4,832                   |
| Foreign currency translation adjustment, net of tax | 856                        | 773                        |
| Total comprehensive income                          | \$ 4,509                   | \$ 5,605                   |

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

Table of Contents**RESOURCES CONNECTION, INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****(Unaudited)****(Amounts in thousands)****Three Months Ended  
August 24, 2013****COMMON STOCK-SHARES:**

|   |        |
|---|--------|
| Balance at beginning of period                              | 56,082 |
| Exercise of stock options                                   | 269    |
| Issuance of restricted stock                                | 5      |
| Issuance of common stock under Employee Stock Purchase Plan | 176    |
| Balance at end of period                                    | 56,532 |

**COMMON STOCK-PAR VALUE:**

|   |        |
|---|--------|
| Balance at beginning of period                              | \$ 561 |
| Exercise of stock options                                   | 3      |
| Issuance of common stock under Employee Stock Purchase Plan | 1      |
| Balance at end of period                                    | \$ 565 |

**ADDITIONAL PAID-IN CAPITAL:**

|   |            |
|---|------------|
| Balance at beginning of period  | \$ 347,790 |
| Exercise of stock options   | 3,243      |
| Stock-based compensation expense related to share-based awards and employee stock purchases | 1,654      |
| Tax shortfall from employee stock option plans  | (72)       |
| Issuance of common stock under Employee Stock Purchase Plan                                 | 1,733      |
| Balance at end of period  | \$ 354,348 |

**ACCUMULATED OTHER COMPREHENSIVE LOSS:**

|   |            |
|---|------------|
| Balance at beginning of period                      | \$ (3,958) |
| Foreign currency translation adjustment, net of tax | 856        |
| Balance at end of period                            | \$ (3,102) |

**RETAINED EARNINGS:**

|                                   |            |
|-----------------------------------|------------|
| Balance at beginning of period    | \$ 290,549 |
| Cash dividends (\$0.07 per share) | (2,788)    |
| Net income                        | 3,653      |

|                          |    |         |
|--------------------------|----|---------|
| Balance at end of period | \$ | 291,414 |
|--------------------------|----|---------|

**TREASURY STOCK-SHARES:**

|                                |  |        |
|--------------------------------|--|--------|
| Balance at beginning of period |  | 16,377 |
|--------------------------------|--|--------|

|                    |  |     |
|--------------------|--|-----|
| Purchase of shares |  | 312 |
|--------------------|--|-----|

|                          |  |        |
|--------------------------|--|--------|
| Balance at end of period |  | 16,689 |
|--------------------------|--|--------|

**TREASURY STOCK-COST:**

|                                |    |           |
|--------------------------------|----|-----------|
| Balance at beginning of period | \$ | (282,615) |
|--------------------------------|----|-----------|

|                    |  |         |
|--------------------|--|---------|
| Purchase of shares |  | (4,162) |
|--------------------|--|---------|

|                          |    |           |
|--------------------------|----|-----------|
| Balance at end of period | \$ | (286,777) |
|--------------------------|----|-----------|

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

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

|   | <b>Three Months Ended</b>  |                            |
|---|----------------------------|----------------------------|
|   | <b>August 24,<br/>2013</b> | <b>August 25,<br/>2012</b> |
| Cash flows from operating activities:   |                            |                            |
| Net income  | \$ 3,653                   | \$ 4,832                   |
| Adjustments to reconcile net income to net cash provided by operating activities:           |                            |                            |
| Depreciation and amortization   | 1,378                      | 1,617                      |
| Stock-based compensation expense related to share-based awards and employee stock purchases | 1,654                      | 1,813                      |
| Excess tax benefits from stock-based compensation   | (1)                        | (7)                        |
| Loss on disposal of assets  | 20                         | 17                         |
| Deferred income tax benefit   | (368)                      | (626)                      |
| Changes in operating assets and liabilities:  |                            |                            |
| Trade accounts receivable   | 3,225                      | (1,521)                    |
| Prepaid expenses and other current assets   | (283)                      | 298                        |
| Income taxes  | 1,488                      | 2,818                      |
| Other assets  | 90                         | 34                         |
| Accounts payable and accrued expenses   | (1,096)                    | (1,297)                    |
| Accrued salaries and related obligations  | (3,892)                    | (5,479)                    |
| Other liabilities   | (541)                      | 1,207                      |
| Net cash provided by operating activities   | 5,327                      | 3,706                      |
| Cash flows from investing activities:   |                            |                            |
| Redemption of short-term investments  | 25,000                     | 18,000                     |
| Purchase of short-term investments  | (24,987)                   | (5,006)                    |
| Purchase of property and equipment  | (1,425)                    | (590)                      |
| Net cash (used in) provided by investing activities   | (1,412)                    | 12,404                     |
| Cash flows from financing activities:   |                            |                            |
| Proceeds from exercise of stock options   | 3,246                      | 225                        |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan                   | 1,734                      | 2,053                      |
| Purchase of common stock  | (4,162)                    | (8,926)                    |
| Cash dividends paid   | (2,391)                    | (2,097)                    |
| Excess tax benefits from stock-based compensation   | 1                          | 7                          |
| Net cash used in financing activities   | (1,572)                    | (8,738)                    |

|  |           |            |
|--|-----------|------------|
| Effect of exchange rate changes on cash          | 45        | 376        |
| Net increase in cash                             | 2,388     | 7,748      |
| Cash and cash equivalents at beginning of period | 94,016    | 105,124    |
| Cash and cash equivalents at end of period       | \$ 96,404 | \$ 112,872 |

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

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**RESOURCES CONNECTION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Three months ended August 24, 2013 and August 25, 2012**

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

Resources Connection, Inc. ( "Resources Connection" ), a Delaware corporation, was incorporated on November 16, 1998. Resources Connection is a multinational professional services firm; its operating entities provide services primarily under the name Resources Global Professionals ( "RGP" or the "Company" ). The Company is organized around client service teams utilizing experienced professionals specializing in accounting, finance, risk management and internal audit, corporate advisory, strategic communications and restructuring, information management, human capital, supply chain management, healthcare solutions, actuarial, legal and regulatory services in support of client-led projects, interim needs and consulting initiatives. The Company has offices in the United States ( "U.S." ), Asia, Australia, Canada, Europe and Mexico.

The Company's fiscal year consists of 52 or 53 weeks, ending on the last Saturday in May. The first quarters of fiscal 2014 and 2013 consisted of 13 weeks each.

**2. Summary of Significant Accounting Policies**

***Interim Financial Information***

The financial information as of and for the three months ended August 24, 2013 and August 25, 2012 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of its financial position at such dates and the operating results and cash flows for those periods. The year-end balance sheet data was derived from audited financial statements, and certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States ( "GAAP" ) have been condensed or omitted pursuant to Securities and Exchange Commission ( "SEC" ) rules or regulations; however, the Company believes the disclosures made are adequate to make the information presented not misleading.

The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for the fiscal year. These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended May 25, 2013, which are included in the Company's Annual Report on Form 10-K for the year then ended (File No. 0-32113).

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

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

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

The Company recognizes all reimbursements received from clients for out-of-pocket expenses as revenue and all such expenses as direct cost of services. Reimbursements received from clients were \$2.0 million and \$2.5 million for the three months ended August 24, 2013 and August 25, 2012, respectively.

***Foreign Currency Translation***

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

***Net Income Per Share Information***

The Company presents both basic and diluted earnings per share ( EPS ). Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the period, calculated using the treasury stock method for stock options. Under the treasury stock method, assumed proceeds include the amount the employee must pay for exercising stock options, 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 periods indicated (in thousands, except per share amounts):

|   | <b>Three Months Ended</b>  |                            |
|---|----------------------------|----------------------------|
|   | <b>August 24,<br/>2013</b> | <b>August 25,<br/>2012</b> |
| Net income                              | \$ 3,653                   | \$ 4,832                   |
| Basic:                                  |                            |                            |
| Weighted average shares                 | 39,826                     | 41,720                     |
| Diluted:                                |                            |                            |
| Weighted average shares                 | 39,826                     | 41,720                     |
| Potentially dilutive shares             | 18                         | 54                         |
| Total dilutive shares                   | 39,844                     | 41,774                     |
| Net income per common share:            |                            |                            |
| Basic                                   | \$ 0.09                    | \$ 0.12                    |
| Dilutive                                | \$ 0.09                    | \$ 0.12                    |
| Anti-dilutive shares not included above | 8,736                      | 8,360                      |

**Stock-Based Compensation**

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

The Company estimates 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. Stock options vest over four years and restricted stock award vesting is determined on an individual grant basis under the Company's 2004 Performance Incentive Plan ("2004 Plan"). The Company determines the estimated value of stock options using the Black-Scholes valuation model. The Company recognizes stock-based compensation expense on a straight-line basis over the service period for options that are expected to vest and records adjustments to compensation expense at the end of the service period if actual forfeitures differ from original estimates.

See Note 8 *Stock-Based Compensation Plans* for further information on stock-based compensation.

**Use of Estimates**

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

### 3. Contingent Consideration

On November 20, 2009, the Company acquired certain assets of Sitrick And Company ( Sitrick Co ), a strategic communications firm, and Brincko Associates, Inc. ( Brincko ), a corporate advisory and restructuring firm, through the purchase of all of the outstanding membership interests in Sitrick Brincko Group, a Delaware limited liability company, formed for the purpose of the acquisition, pursuant to a Membership Interest Purchase Agreement by and among the Company, Sitrick Co, Michael S. Sitrick, an individual, Brincko and John P. Brincko, an individual (together with Mr. Sitrick, Sitrick Co and Brincko, the Sellers ). Prior to the acquisition date, Mr. Sitrick and Nancy Sitrick were the sole shareholders of Sitrick Co and Mr. Brincko was the sole shareholder of Brincko. In addition, on the same date, the Company acquired the personal goodwill of Mr. Sitrick pursuant to a Goodwill Purchase Agreement by and between the Company and Mr. Sitrick (collectively with the Membership Interest Purchase Agreement, the Acquisition Agreements ). Sitrick Brincko Group is now a wholly-owned subsidiary of the Company. By combining the specialized skill sets of Sitrick Brincko Group with the Company s existing consultant capabilities, geographic footprint and client base, the Company believes it has increased its ability to assist clients during challenging periods, particularly in the areas of management consulting, corporate advisory, strategic communications and restructuring services. This expected synergy gave rise to goodwill recorded as part of the purchase price of Sitrick Brincko Group.

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Contingent consideration may be payable to the Sellers in a lump sum following the fourth anniversary of the acquisition only if the average annual earnings before interest, taxes, depreciation and amortization ( EBITDA ) (calculated from each of the four one-year periods following the acquisition date) of Sitrick Brincko Group exceed \$11.3 million. At the end of the four-year earn-out period, the Company will determine if the average annual EBITDA exceeded \$11.3 million; if so, the contingent consideration payable is determined by multiplying the average annual EBITDA by 3.15 (representing the agreed upon multiple to be paid by the Company as specified in the Acquisition Agreements).

As of August 24, 2013, the Company believes that it is unlikely that there will be a contingent consideration payment due in November 2013 to either the Sellers or an allocated portion of up to 20% to the employees of Sitrick Brincko Group. Sitrick Brincko Group's average EBITDA for the first three annual measurement periods ended in November 2012 was substantially below the required \$11.3 million base and, after considering the results from December 2012 through August 2013 and an estimate for the quarter ended in November 2013, the Company believes it is unlikely that the average EBITDA for the four annual measurement periods will exceed the average EBITDA required for the contingent consideration payment. There is no contingent consideration liability recorded as of August 24, 2013.

Although the Company believes that there will be no earn-out payment due in November 2013, it will continue to periodically review actual EBITDA results and an updated assessment of various probability weighted projected EBITDA scenarios of Sitrick Brincko Group; if circumstances change and the Company determines that an earn-out payment may be due, such future revisions would materially change the estimate of the fair value of contingent consideration and therefore materially affect the Company's future financial results.

In the event that the contingent consideration is not paid at the conclusion of the earn-out period, Mr. Brincko will be entitled to receive a cash payment of \$2,250,000, subject to his employment in good standing with the Company as defined. As a result of the Company's determination that it is unlikely that the contingent consideration will be earned, this amount is being recognized as a selling, general and administrative expense over the remaining service period from the time it was estimated that no contingent consideration will be due.

**4. Intangible Assets and Goodwill**

The following table presents details of the Company's intangible assets, estimated lives and related accumulated amortization (in thousands):

|  | As of August 24, 2013 |                          |          | As of May 25, 2013 |                          |          |
|--|-----------------------|--------------------------|----------|--------------------|--------------------------|----------|
|  | Gross                 | Accumulated Amortization | Net      | Gross              | Accumulated Amortization | Net      |
| Customer relationships (2-7 years)           | \$ 18,175             | \$ (17,072)              | \$ 1,103 | \$ 17,978          | \$ (16,710)              | \$ 1,268 |
| Consultant and customer database (1-5 years) | 2,348                 | (2,348)                  |          | 2,330              | (2,330)                  |          |
| Non-compete agreements (1-5 years)           | 3,232                 | (2,487)                  | 745      | 3,226              | (2,331)                  | 895      |
| Trade name and trademark (5 years)           | 1,341                 | (908)                    | 433      | 1,341              | (845)                    | 496      |
| Total  | \$ 25,096             | \$ (22,815)              | \$ 2,281 | \$ 24,875          | \$ (22,216)              | \$ 2,659 |

The following table summarizes amortization expense for the three months ended August 24, 2013 and August 25, 2012 and the expected amount of intangible asset amortization expense (based on existing intangible assets) for the

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years ending May 31, 2014, May 30, 2015, May 28, 2016, May 27, 2017 and May 26, 2018 (in thousands):

|                      | <b>Three Months Ended</b>  |                            |
|----------------------|----------------------------|----------------------------|
|                      | <b>August 24,<br/>2013</b> | <b>August 25,<br/>2012</b> |
| Amortization expense | \$ 417                     | \$ 426                     |

|                               | <b>Fiscal Years Ending</b> |             |             |             |             |
|-------------------------------|----------------------------|-------------|-------------|-------------|-------------|
|                               | <b>2014</b>                | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
| Expected amortization expense | \$ 1,676                   | \$ 904      | \$ 12       | \$ 12       | \$ 12       |

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These estimates do not incorporate the impact that currency fluctuations may cause when translating the financial results of the Company's international operations that have amortizable intangible assets into U.S. dollars. The fluctuation in the gross balance of intangible assets reflects the impact of currency fluctuations between fiscal 2014 and 2013 in translating the intangible balances recorded on the Company's international operations financial statements.

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

|  | <b>For the Three Months Ended</b> |                            |
|--|-----------------------------------|----------------------------|
|  | <b>August 24,<br/>2013</b>        | <b>August 25,<br/>2012</b> |
| Goodwill, beginning of year                      | \$ 174,275                        | \$ 173,576                 |
| Impact of foreign currency exchange rate changes | 726                               | 126                        |
| Goodwill, end of period                          | \$ 175,001                        | \$ 173,702                 |

**Table of Contents****5. Income Taxes**

The Company's provision for income taxes was \$3.1 million (effective tax rate of approximately 46%) and \$4.9 million (effective tax rate of approximately 50%) for the three months ended August 24, 2013 and August 25, 2012, respectively. The Company records tax expense based upon an actual effective tax rate versus a forecasted tax rate because of the volatility in its international operations which span numerous tax jurisdictions.

The provision for income taxes in the first quarter of fiscal 2014 and 2013 results from taxes on income in the U.S. and certain other foreign jurisdictions, no benefit for losses in jurisdictions in which a full valuation allowance on operating loss carryforwards had previously been established and a lower benefit for losses in certain foreign jurisdictions with tax rates lower than the U.S. statutory rates. The period to period decrease in the effective tax rate results primarily from the reversal of \$350,000 of uncertain international tax position accruals for which the statute of limitations has expired.

In addition, the inability to benefit from losses in jurisdictions with a full valuation allowance and the unpredictability of the timing and amount of eligible disqualifying incentive stock option ( ISO ) exercises impact the Company's effective tax rate. The Company cannot recognize a tax benefit for the stock compensation expense related to certain ISO exercises unless and until the holder exercises his or her option and then sells the shares within a certain period of time. Also, 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. Further, tax benefits associated with ISO grants fully vested at the date of adoption of current accounting rules for stock-based compensation 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 \$590,000 and \$631,000 related to stock-based compensation for nonqualified stock options expensed and for eligible disqualifying ISO exercises during the first quarter of fiscal 2014 and 2013, respectively.

**6. Stockholders' Equity**

In April 2011, the Company's board of directors approved a stock repurchase program, authorizing the repurchase, at the discretion of the Company's senior executives, of the Company's common stock for an aggregate dollar limit not to exceed \$150 million. During the three months ended August 24, 2013, the Company purchased approximately 312,100 shares of its common stock at an average price of \$13.34 per share on the open market for approximately \$4.2 million. As of August 24, 2013, approximately \$68.4 million remains available for future repurchases of the Company's common stock under the stock repurchase program.

**7. Supplemental Disclosure of Cash Flow Information**

Additional information regarding cash flows is as follows (in thousands):

|                                | <b>For the Three Months Ended</b> |                            |
|--------------------------------|-----------------------------------|----------------------------|
|                                | <b>August 24,<br/>2013</b>        | <b>August 25,<br/>2012</b> |
| Non-cash financing activities: |                                   |                            |
| Dividends declared, not paid   | \$ 2,788                          | \$ 2,492                   |

**8. Stock-Based Compensation Plans**

***Stock Options and Restricted Stock***

As of August 24, 2013, the Company had outstanding grants under the 2004 Plan and the 1999 Long Term Incentive Plan ( 1999 Plan ). The 2004 Plan serves as the successor to the 1999 Plan. At inception, a total of 7,500,000 new shares of common stock were made available for awards under the 2004 Plan to employees and non-employee directors. Awards under the 2004 Plan may include, but are not limited to, stock options and restricted stock grants. Outstanding awards under the 1999 Plan that expire or terminate without having been exercised roll over to the 2004 Plan. Stock options generally vest in equal annual installments over four years and terminate ten years from the date of grant. Restricted stock award vesting is determined on an individual grant basis. As of August 24, 2013, 559,000 shares were available for future award grants under the 2004 Plan, although awards of restricted stock under the 2004 Plan will be counted against the available share limit as two and a half shares for every one share actually issued in connection with the award. The Company s policy is to issue shares from its authorized shares upon the exercise of stock options.

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The following table summarizes the stock option activity for the three months ended August 24, 2013 (number of options and intrinsic value in thousands):

|  | Number<br>of<br>Shares<br>Under<br>Option | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|--|---|--|--|---------------------------------|
| Outstanding at May 25, 2013                    | 7,970                                     | \$ 19.60                                 | 4.91   | \$ 72                           |
| Granted, at fair market value                  | 1,168                                     | 11.08                                    |  |                                 |
| Exercised                                      | (269)                                     | 12.05                                    |  |                                 |
| Forfeited                                      | (40)                                      | 13.12                                    |  |                                 |
| Expired  | (47)                                      | 16.95                                    |  |                                 |
| Outstanding at August 24, 2013                 | 8,782                                     | \$ 18.74                                 | 5.46   | \$ 2,361                        |
| Exercisable at August 24, 2013                 | 6,098                                     | \$ 21.10                                 | 4.01   | \$ 95                           |
| Vested and expected to vest at August 24, 2013 | 8,389                                     | \$ 19.06                                 | 5.28   | \$ 1,865                        |

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 first quarter of fiscal 2014 and the exercise price multiplied by the number of shares that would have been received by the option holders if they had exercised their in the money options on August 24, 2013. This amount will change based on the fair market value of the Company's common stock. The aggregate intrinsic value of stock options exercised for the three months ended August 24, 2013 and August 25, 2012 was \$289,000 and \$134,000, respectively.

***Stock-Based Compensation Expense***

As of August 24, 2013, there was \$11.0 million of total unrecognized compensation cost related to non-vested employee stock options granted. That cost is expected to be recognized over a weighted-average period of 32 months. Stock-based compensation expense included in selling, general and administrative expenses for the three months ended August 24, 2013 and August 25, 2012 was \$1.7 million and \$1.8 million, respectively; this consisted of stock-based compensation expense related to employee stock options, employee stock purchases made via the Company's ESPP and issuances of restricted stock. There were no capitalized share-based compensation costs during the three months ended August 24, 2013 and August 25, 2012.

The weighted average estimated fair value per share of employee stock options granted during the three months ended August 24, 2013 was \$3.73 using the Black-Scholes valuation model with the following assumptions:

|                     | For the Three Months Ended<br>August 24, 2013 |
|---------------------|---|
| Expected volatility | 42.1% - 44.1%                                 |

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|                         |                 |
|-------------------------|-----------------|
| Risk-free interest rate | 1.1% - 1.7%     |
| Expected dividends      | 2.1%            |
| Expected life           | 5.3 - 7.5 years |

The Company granted 5,141 shares of restricted stock during the three months ended August 24, 2013. No shares of restricted stock were granted during the three months ended August 25, 2012. Stock-based compensation expense for restricted shares for the three months ended August 24, 2013 and August 25, 2012 was \$85,000 and \$62,000, respectively. There were 78,741 unvested restricted shares, with approximately \$814,000 of remaining unrecognized compensation cost, as of August 24, 2013.

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

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The Company reflects, in its Consolidated Statements of Cash Flows, the tax impact resulting from tax deductions in excess of expense recognized in its Consolidated Statements of Operations as a financing cash flow, which will impact the Company's future reported cash flows from operating activities. Gross excess tax benefits totaled \$1,000 and \$7,000 for the three months ended August 24, 2013 and August 25, 2012, respectively.

**Employee Stock Purchase Plan**

The Company's ESPP allows qualified employees (as defined in the ESPP) to purchase designated shares of the Company's common stock at a price equal to 85% of the lesser of the fair market value of common stock at the beginning or end of each semi-annual stock purchase period. A total of 4,400,000 shares of common stock may be issued under the ESPP. The Company issued 176,000 and 411,000 shares of common stock pursuant to the ESPP for the three months ended August 24, 2013 and the year ended May 25, 2013, respectively. There were 610,000 shares of common stock available for issuance under the ESPP as of August 24, 2013.

**9. Segment Information and Enterprise Reporting**

The Company discloses information regarding operations outside of the U.S. The Company operates as one segment. The accounting policies for the domestic and international operations are the same as those described in Note 2-*Summary of Significant Accounting Policies* in the Notes to Consolidated Financial Statements included in the Company's 2013 Annual Report on Form 10-K for the fiscal year ended May 25, 2013. Summarized information regarding the Company's domestic and international operations is shown in the following table (in thousands):

|                 | <b>Revenue for the</b>    |                   | <b>Long-Lived Assets (1) as of</b> |                |
|-----------------|---------------------------|-------------------|------------------------------------|----------------|
|                 | <b>Three Months Ended</b> |                   | <b>Three Months Ended</b>          |                |
|                 | <b>August 24,</b>         | <b>August 25,</b> | <b>August 24,</b>                  | <b>May 25,</b> |
|                 | <b>2013</b>               | <b>2012</b>       | <b>2013</b>                        | <b>2013</b>    |
| United States   | \$ 102,194                | \$ 104,790        | \$ 172,366                         | \$ 171,939     |
| The Netherlands | 5,767                     | 5,827             | 22,928                             | 22,457         |
| Other           | 23,743                    | 26,316            | 3,546                              | 3,625          |
| Total           | \$ 131,704                | \$ 136,933        | \$ 198,840                         | \$ 198,021     |

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

**10. Legal Proceedings**

The Company is involved in certain legal matters in the ordinary course of business. In the opinion of management, all such matters, if disposed of unfavorably, would not have a material adverse effect on the Company's financial position, cash flows or results of operations.

**11. Recent Accounting Pronouncements**

*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* In July 2013, the Financial Accounting Standards Board (FASB) issued new guidance

which requires an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. To the extent the tax benefit is not available at the reporting date under the governing tax law or if the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented as a liability and not combined with deferred tax assets. The guidance is effective for annual periods, and interim periods within those years, beginning after December 15, 2013. The amendments are to be applied to all unrecognized tax benefits that exist as of the effective date and may be applied retrospectively to each prior reporting period presented. The Company does not expect that adoption of this guidance will have a material impact on the Company's consolidated financial statements.

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*Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries.* In March 2013, the FASB issued new guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer result in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect that adoption of this guidance will have a material impact on the Company's consolidated financial statements.

*Comprehensive Income.* In February 2013, the FASB issued new guidance on the presentation of comprehensive income which requires a company to present, either on the face of the statement where net income is presented or in the notes, the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income but only if the item reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2012. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The information required under this guidance is already required to be disclosed elsewhere in the financial statements under GAAP and, therefore, the adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

*Testing Indefinite-Lived Intangible Assets for Impairment.* In July 2012, the FASB issued new guidance for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. The guidance allows an organization the option of first assessing qualitative factors to determine if a quantitative impairment test of the indefinite-lived intangible asset is necessary. If the qualitative assessment reveals that it is more likely than not that the asset is impaired, a calculation of the asset's fair value is required. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes. This discussion and analysis contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to expectations concerning matters that are not historical facts. Such forward-looking statements may be identified by words such as anticipates, believes, can, continue, could, estimates, expects, intends, may, plans, potential, predicts, remain, should, or 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 Part II Item 1A Risk Factors below and in our Annual Report on Form 10-K for the year ended May 25, 2013 (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, RGP, Resources Global Professionals, Resources Global, the Company, we, us, and our refer to Resources Connection and its subsidiaries.

**Overview**

RGP is a multinational consulting firm that provides its global client base with experienced professionals specializing in accounting, finance, risk management and internal audit, corporate advisory, strategic communications and restructuring, information management, human capital, supply chain management, healthcare solutions, actuarial, and legal and regulatory services in support of client-led projects, interim needs and consulting initiatives. We assist our clients with projects requiring specialized expertise in numerous areas, including:

finance and accounting services, such as financial analyses (e.g., product costing and margin analyses), carve-outs and divestitures, merger and acquisition due diligence, budgeting and forecasting, audit preparation, public-entity reporting, tax-related projects, initial public offering assistance and assistance in the preparation or restatement of financial statements;

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

corporate advisory, strategic communications and restructuring services;

corporate governance, risk management, internal audit co-sourcing and compliance efforts under the Sarbanes-Oxley Act of 2002 ( Sarbanes ) or the Dodd-Frank Wall Street Reform and Consumer Protection Act;

supply chain management services, such as strategic sourcing efforts, contract negotiations, purchasing strategy and Conflict Minerals compliance;

actuarial services for pension and life insurance companies;

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

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

We were founded in June 1996 by a team at Deloitte, led by our executive chairman, Donald B. Murray, who was then a senior partner with Deloitte. Our founders created Resources Connection to capitalize on the increasing demand for high quality outsourced professional services. We operated as a part of Deloitte from our inception in June 1996 until April 1999. In April 1999, we completed a management-led buyout in partnership with several investors. In December 2000, we completed our initial public offering of common stock and began trading on the NASDAQ Stock Market. We currently trade on the NASDAQ Global Select Market. In January 2005, we announced the change of our operating entity name to Resources Global Professionals ( RGP ) to better reflect the Company's multinational capabilities, and during fiscal 2013, we redesigned our logo and adopted the initials RGP for branding and marketing purposes.

We operated solely in the United States until fiscal year 2000, when we opened our first three international offices and began to expand geographically to meet the demand for project professional services across the world. As of August 24, 2013, we served clients from offices in 21 countries, including 26 international offices and 47 offices in the United States.

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### **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 GAAP 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. There have been no material changes in our critical accounting policies, or in the estimates and assumptions underlying those policies, from those described in our Annual Report on Form 10-K for the year ended May 25, 2013.

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

*Allowance for doubtful accounts* We maintain an allowance for doubtful accounts for estimated losses resulting from our clients failing to make required payments for services rendered. We estimate this allowance based upon our knowledge of the financial condition of our clients (which may not include knowledge of all significant events), review of historical receivable and reserve trends and other pertinent information. While such losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of our clients could cause unfavorable trends in receivable collections and additional allowances may be required. These additional allowances could materially affect the Company's future financial results.

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

*Revenue recognition* We primarily charge our clients on an hourly basis for the professional services of our consultants. We recognize revenue once services have been rendered and invoice the majority of our clients in the United States on a weekly basis. Some of our clients served by our international operations are billed on a monthly basis. Our clients are contractually obligated to pay us for all hours billed. To a much lesser extent, we also earn revenue if a client hires one of our consultants. 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 other stock or stock-based awards. Under our ESPP, eligible officers and employees may purchase our common stock in accordance with the terms of the plan.

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

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The Company uses its historical volatility over the expected life of the stock option award to estimate the expected volatility of the price of its common stock. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The impact of expected dividends (\$0.07 per share for the first quarter of fiscal 2014 and \$0.06 per share for fiscal 2013) is also incorporated in determining the estimated value per share of employee stock option grants. Such dividends are subject to quarterly board of director approval. The Company's historical expected life of stock option grants is 5.3 years for non-officers and 7.5 years for officers. The Company reviews the underlying assumptions related to stock-based compensation at least annually.

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

**Results of Operations**

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

|  | <b>Three Months Ended</b>     |                            |
|--|-------------------------------|----------------------------|
|  | <b>August 24,<br/>2013</b>    | <b>August 25,<br/>2012</b> |
|  | <b>(Amounts in thousands)</b> |                            |
| Revenue                                      | \$ 131,704                    | \$ 136,933                 |
| Direct cost of services                      | 81,994                        | 83,544                     |
| Gross margin                                 | 49,710                        | 53,389                     |
| Selling, general and administrative expenses | 41,612                        | 42,060                     |
| Amortization of intangible assets            | 417                           | 426                        |
| Depreciation expense                         | 961                           | 1,191                      |
| Income from operations                       | 6,720                         | 9,712                      |
| Interest income                              | (39)                          | (48)                       |
| Income before provision for income taxes     | 6,759                         | 9,760                      |
| Provision for income taxes                   | 3,106                         | 4,928                      |
| Net income                                   | \$ 3,653                      | \$ 4,832                   |

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

|                                   | <b>Three Months Ended</b>     |                            |
|-----------------------------------|-------------------------------|----------------------------|
|                                   | <b>August 24,<br/>2013</b>    | <b>August 25,<br/>2012</b> |
|                                   | <b>(Amounts in thousands)</b> |                            |
| Net income                        | \$ 3,653                      | \$ 4,832                   |
| Adjustments:                      |                               |                            |
| Amortization of intangible assets | 417                           | 426                        |
| Depreciation expense              | 961                           | 1,191                      |
| Interest income                   | (39)                          | (48)                       |
| Provision for income taxes        | 3,106                         | 4,928                      |
| EBITDA                            | \$ 8,098                      | \$ 11,329                  |
| Stock-based compensation expense  | 1,654                         | 1,813                      |
| Adjusted EBITDA                   | \$ 9,752                      | \$ 13,142                  |
| Revenue                           | \$ 131,704                    | \$ 136,933                 |
| Adjusted EBITDA Margin            | 7.4%                          | 9.6%                       |

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

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

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

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements;

Equity based compensation is an element of our long-term incentive compensation program, although we exclude it as an expense from Adjusted EBITDA when evaluating our ongoing operating performance for a particular period; and

Other companies in our industry may calculate Adjusted EBITDA and Adjusted EBITDA Margin differently than we do, limiting their usefulness as comparative measures.

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

### **Three Months Ended August 24, 2013 Compared to Three Months Ended August 25, 2012**

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

**Revenue.** Revenue decreased \$5.2 million, or 3.8%, to \$131.7 million for the three months ended August 24, 2013 from \$136.9 million for the three months ended August 25, 2012. We deliver our services to clients in a similar fashion across the globe. In light of continuing global economic uncertainty, we believe that our global clients and prospects are initiating operational improvement projects cautiously, resulting in reduced levels of consulting spending, particularly in certain European markets. In the first quarter of fiscal 2014, revenue decreased in all of our practice areas around the globe over the same period in fiscal 2013. The number of hours worked in the first quarter of fiscal 2014 decreased about 3.4% compared with the prior year first quarter while average bill rates were flat. The number of consultants on assignment as of August 24, 2013 was 2,237 compared to 2,284 consultants engaged as of August 25, 2012.

We operated 73 (26 abroad) and 77 (27 abroad) offices as of August 24, 2013 and August 25, 2012, respectively; the decrease quarter-over-quarter is because we consolidated certain offices in contiguous areas. Our clients do not sign long-term contracts with us. As such, there can be no assurance as to future demand levels for the services that we provide or that future results can be reliably predicted by considering past trends.

Revenue for the Company's practice areas across the globe consisted of the following (amounts in thousands):

|               | Revenue for the<br>Three Months Ended |                    |          | % of Total         |                    |
|---------------|---------------------------------------|--------------------|----------|--------------------|--------------------|
|               | August 24,<br>2013                    | August 25,<br>2012 | % Change | August 24,<br>2013 | August 25,<br>2012 |
| North America | \$ 104,621                            | \$ 107,946         | (3.1)%   | 79.4%              | 78.8%              |
| Europe        | 17,791                                | 19,031             | (6.5)%   | 13.5               | 13.9               |
| Asia Pacific  | 9,292                                 | 9,956              | (6.7)%   | 7.1                | 7.3                |
| Total         | \$ 131,704                            | \$ 136,933         | (3.8)%   | 100.0%             | 100.0%             |

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Our financial results are subject to fluctuations in the exchange rates of foreign currencies in relation to the United States dollar. Revenues denominated in foreign currencies are translated into United States dollars at the monthly average exchange rates in effect during each quarter. Thus, as the value of the United States dollar fluctuates relative to the currencies in our non-United States based operations, our revenue can be impacted. Using the comparable fiscal 2013 conversion rates, international revenues would have been higher than reported under GAAP by \$171,000 in the first quarter of fiscal 2014.

**Direct Cost of Services.** Direct cost of services decreased \$1.5 million, or 1.8%, to \$82.0 million for the three months ended August 24, 2013 from \$83.5 million for the three months ended August 25, 2012. The decrease in the amount of direct cost of services was attributable to a 3.4% decline in the number of hours worked in the first quarter of fiscal 2014 as compared to the same period of fiscal 2013, partially offset by an increase in pay rate per hour of approximately 1.6% over the same period. The direct cost of services percentage of revenue was 62.3% and 61.0% for the three months ended August 24, 2013 and August 25, 2012, respectively. The change in the direct cost of services percentage between the quarters resulted primarily from an unfavorable change in the bill rate/pay rate ratio and increases in healthcare expenses during the first quarter of fiscal 2014.

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

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses ( S, G & A ) as a percentage of revenue was 31.6% and 30.7% for the quarters ended August 24, 2013 and August 25, 2012, respectively. S, G & A decreased \$500,000, or 1.2%, to \$41.6 million for the three months ended August 24, 2013 from \$42.1 million for the three months ended August 25, 2012.

The decrease quarter-over-quarter is primarily related to reduced spending in a variety of categories, offset by increased salary and related benefit costs in the first quarter of fiscal 2014 as compared to the same period of fiscal 2013. Management and administrative headcount increased from 675 at the end of the first quarter of fiscal 2013 to 712 at the end of the first quarter of fiscal 2014.

**Sequential Operations.** On a sequential quarter basis, fiscal 2014 first quarter revenues decreased approximately 6.1%, from \$140.2 million to \$131.7 million, primarily attributable to a decrease in billable hours between the two periods as more vacation time was taken by our consultants in the first quarter of fiscal 2014 (which includes the summer holiday period) than during the fourth quarter of fiscal 2013. Billable hours worked decreased 4.5%, while bill rates were down 1.6%. The Company's sequential revenue decreased in North America (5.4%) and Europe (12.3%) but improved in Asia Pacific (1.1%). The direct cost of services percentage of revenue increased from 61.1% in the fourth quarter of fiscal 2013 to 62.3% in the first quarter of fiscal 2014. The increase was primarily the result of holiday pay in the United States for Memorial Day and July 4<sup>th</sup>, an unfavorable change in the bill rate/pay rate ratio, and higher healthcare costs. The ratio of S, G & A to revenue increased from 30.2% for the quarter ended May 25, 2013 to 31.6% for the quarter ended August 24, 2013, due to decreased leverage as a result of lower revenue in the first quarter of fiscal 2014.

**Amortization and Depreciation Expense.** Amortization of intangible assets decreased to \$417,000 for the three months ended August 24, 2013 from \$426,000 for the three months ended August 25, 2012. Based upon identified intangible assets recorded at August 24, 2013, the Company anticipates amortization expense related to identified intangible assets to approximate \$1.7 million during the fiscal year ending May 31, 2014.

Depreciation expense was \$1.0 million for the three months ended August 24, 2013 compared to \$1.2 million for the three months ended August 25, 2012. Depreciation expense decreased as a number of assets were fully depreciated during fiscal 2013 and the Company slowed the amount invested in new property and equipment in recent years.

**Interest Income.** Interest income was \$39,000 in the first quarter of fiscal 2014 compared to \$48,000 in the first quarter of fiscal 2013. The decrease in interest income in the first quarter of fiscal 2014 is primarily the result of lower interest rates offset by higher average cash balances available for investment as compared to the prior year's first quarter.

The Company has invested available cash in certificates of deposit, money market investments and commercial paper that have been classified as cash equivalents due to the short maturities of these investments. As of August 24, 2013, the Company also has \$25.0 million of investments in commercial paper and certificates of deposit with maturity dates between three months and one year from the balance sheet date classified as short-term investments and considered held-to-maturity securities.

**Income Taxes.** The Company's provision for income taxes was \$3.1 million (effective tax rate of approximately 46%) and \$4.9 million (effective tax rate of approximately 50%) for the three months ended August 24, 2013 and August 25, 2012, respectively. The Company records tax expense based upon an actual effective tax rate versus a forecasted tax rate because of the volatility in its international operations which span numerous tax jurisdictions.

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The provision for income taxes in the first quarter of fiscal 2014 and 2013 results from taxes on income in the United States and certain other foreign jurisdictions, no benefit for losses in jurisdictions in which a full valuation allowance on operating loss carryforwards had previously been established and a lower benefit for losses in certain foreign jurisdictions with tax rates lower than the United States statutory rates. In addition, the inability to benefit from losses in jurisdictions with a full valuation allowance and the unpredictability of the timing and amount of eligible disqualifying incentive stock option ( ISO ) exercises impact the Company's effective tax rate. The period to period decrease in the effective tax rate results primarily from the reversal of \$350,000 of uncertain international tax position accruals for which the statute of limitations has expired.

Periodically, the Company reviews the components of both book and taxable income to analyze the adequacy of the tax provision. Due to lower benefit from the United States statutory rate for losses in certain foreign jurisdictions, the limitation on the benefit for losses in jurisdictions in which a valuation allowance for operating loss carryforwards has previously been established, and the unpredictability of timing and the amount of eligible disqualifying ISO exercises, there can be no assurance that the Company's effective tax rate will remain constant in the future.

The Company cannot recognize a tax benefit for the stock compensation expense related to certain ISO grants unless and until the holder exercises his or her option and then sells the shares within a certain period of time. In addition, the Company can only recognize a potential tax benefit for employees' acquisition and subsequent sale of shares purchased through the ESPP if the sale occurs within a certain defined period. As a result, the Company's provision for income taxes is likely to fluctuate from these factors for the foreseeable future. Further, those tax benefits associated with ISO grants fully vested at the date of adoption of the current accounting rules governing stock awards 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 \$590,000 and \$631,000 related to stock-based compensation for nonqualified stock options expensed and for eligible disqualifying ISO exercises during the first quarter of fiscal 2014 and 2013, respectively. The proportion of expense related to non-qualified stock option grants (for which the Company may recognize a tax benefit in the same quarter as the related compensation expense in most instances) is significant as compared to expense related to ISOs (including ESPPs). However, the timing and amount of eligible disqualifying ISO exercises cannot be predicted. The Company predominantly grants nonqualified stock options to employees in the United States.

***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 may not be meaningful indicators of future performance.

## **Liquidity and Capital Resources**

Our primary source of liquidity is cash provided by our operations and, historically, to a lesser extent, stock option exercises. On an annual basis, we have generated positive cash flows from operations since inception. Our ability to continue to increase positive cash flow from operations in the future will be, at least in part, dependent on improvement in global economic conditions.

As of August 24, 2013, the Company had \$121.4 million of cash, cash equivalents and short-term investments. 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 and a London Inter-Bank Offered Rate plus 2.25%. Interest, if any, is payable monthly. The Credit Agreement expires November 30, 2013. The Company currently intends to renew the agreement following its expiration. As of August 24, 2013, the Company had approximately \$1.3 million available under the terms of the

Credit Agreement as Bank of America has issued approximately \$1.7 million of outstanding letters of credit in favor of third parties related to operating leases.

Operating activities provided \$5.3 million in cash for the three months ended August 24, 2013 compared to \$3.7 million for the three months ended August 25, 2012. Cash provided by operations in the first three months of fiscal 2014 resulted from net income of \$3.7 million and non-cash items of \$2.6 million, offset by net unfavorable changes in operating assets and liabilities of \$1.0 million. In the first three months of fiscal 2013, cash provided by operations resulted from net income of \$4.8 million and non-cash items of \$2.8 million, offset by net unfavorable changes in operating assets and liabilities of \$3.9 million. Non-cash items in both years include depreciation and amortization (which decreased between the two periods as several intangible assets became fully amortized in fiscal 2013) and stock-based compensation expense (which decreased between the two periods); these charges do not reflect an actual cash outflow from the Company. The primary operating asset change between the two periods was the decrease in accounts receivable as of August 24, 2013 over the balance at May 25, 2013 versus the increase in accounts receivable in the previous year. This is the result of decreased volume of sales in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013.

Net cash used in investing activities was \$1.4 million for the first three months of fiscal 2014 compared to a source of cash of \$12.4 million in the comparable prior year period. Cash received from maturing short-term investments (primarily commercial paper) exceeded cash from purchases of short-term investments in the first three months of fiscal 2013 by approximately \$13.0 million; the amounts of investments and purchases were equal in the first three months of fiscal 2014. Purchases of property and equipment increased approximately \$800,000 between the two periods.

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Net cash used in financing activities totaled \$1.6 million for the three months ended August 24, 2013, compared to \$8.7 million for the three months ended August 25, 2012. Proceeds from the exercise of employee stock options and issuance of shares via the Company's ESPP were about \$2.7 million higher in fiscal 2014 compared to the same period in fiscal 2013. In addition, the Company used \$4.2 million in the first three months of fiscal 2014 to purchase approximately 312,000 shares of its common stock on the open market versus \$8.9 million in the first three months of the prior fiscal year to purchase approximately 765,000 shares. The Company also paid dividends on its common stock of \$2.4 million in the first three months of fiscal 2014, approximately \$300,000 higher than the year before. The Company's board of directors declared a quarterly cash dividend of \$0.07 per common share on July 25, 2013. The dividend of approximately \$2.8 million, paid on September 19, 2013, is accrued in the Company's Consolidated Balance Sheet as of August 24, 2013.

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

**Recent Accounting Pronouncements**

Information regarding recent accounting pronouncements is contained in Note 11 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

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

*Interest Rate Risk.* As of August 24, 2013, we had approximately \$121.4 million of cash and cash equivalents and short-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. Cost approximates market for these securities. The earnings on these investments are subject to changes in interest rates; however, assuming a constant balance available for investment, a 10% decline in interest rates would reduce our interest income but would not have a material impact on our consolidated financial position or results of operations.

*Foreign Currency Exchange Rate Risk.* For the three months ended August 24, 2013, approximately 22% 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 United States dollar. Revenues and expenses denominated in foreign currencies are translated into United States dollars at the average exchange rates prevailing during the period. Thus, as the value of the United States dollar fluctuates relative to the currencies in our non-United States based operations, our reported results may vary.

Assets and liabilities of our non-United States based operations are translated into United States dollars at the exchange rate effective at the end of each reporting period. Approximately 85% of our balances of cash, cash equivalents and short-term investments as of August 24, 2013 were denominated in United States dollars. The remaining 15% was comprised primarily of cash balances translated from Canadian Dollars, Euros, Japanese Yen and Hong Kong Dollars. The difference resulting from the translation each period of assets and liabilities of our non-United States based operations is recorded as a component of stockholders' equity in accumulated other comprehensive loss.

Although we intend to monitor our exposure to foreign currency fluctuations, we do not currently use financial hedging techniques to mitigate risks associated with foreign currency fluctuations, and we cannot assure you that exchange rate fluctuations will not adversely affect our financial results in the future.

#### **ITEM 4. CONTROLS AND PROCEDURES.**

As required by Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of August 24, 2013. 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 August 24, 2013. 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 August 24, 2013 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**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 25, 2013, which was filed with the Securities and Exchange Commission on July 22, 2013. For convenience, our updated risk factors are included below in this Item 1A. The order in which the risks appear is not intended as an indication of their relative weight or importance.**

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

While economic conditions in many parts of the world began to improve during our fiscal 2011, there continues to be uncertainty regarding general economic conditions and, in particular, the economic impact of the continuing fiscal crisis in Europe and slowing economic growth in parts of Asia. Deterioration of or uncertainty related to the global economy or tightening credit markets could result in a reduction in the demand for our services and adversely affect our business in the future. In addition, the use of professional services consultants on a project-by-project basis could decline for non-economic reasons. In the event of a reduction in the demand for our consultants, our financial results would suffer.

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

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

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

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

consulting firms;

local, regional, national and international accounting and other traditional professional services firms;

independent contractors;

traditional and Internet-based staffing firms; and

the in-house or former in-house resources of our clients.

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

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***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 consultants or for our clients' mistreatment of our consultants.***

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. While we are not currently subject to any client-related legal claims which we believe are material, it remains possible, because of the nature of our business, that we may be involved in litigation in the future that could materially affect our future financial results. Claims brought against us could have a serious negative effect on our reputation and on our business, financial condition and results of operations.

Because we are in the business of placing our consultants in the workplaces of other companies, we are subject to possible claims by our consultants 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 consultants. 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 consultants and clients.

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

Historically, we have grown by opening new offices and by increasing the volume of services provided through existing offices. Since the first quarter of fiscal 2010, we have had difficulty sustaining consistent revenue growth either quarter-over-quarter or in sequential quarters and experienced a year-over-year decline in revenue between fiscal 2012 and fiscal 2013. 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 an improving global economy and a number of factors, including our ability to:

grow our client base;

expand profitably into new geographies;

provide additional professional services offerings;

hire qualified and experienced consultants;

maintain margins in the face of pricing pressures;

manage costs; and

maintain or grow revenues and increase other service offerings from existing clients.

Even if we are able to resume more rapid growth in our revenue, the growth will result in new and increased responsibilities for our management as well as increased demands on our internal systems, procedures and controls, and our administrative, financial, marketing and other resources. For instance, a limited number of clients are requesting that certain engagements be of a fixed fee nature rather than our traditional hourly time and materials approach, thus shifting a portion of the burden of financial risk and monitoring to us. Failure to adequately respond to these new responsibilities and demands may adversely affect our business, financial condition and results of operations.

***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;

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

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

protectionist laws and business practices that favor local companies;

political and economic instability in some international markets;

multiple, conflicting and changing government laws and regulations;

trade barriers;

reduced protection for intellectual property rights in some countries; and

potentially adverse tax consequences.

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

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

diversion of management's attention from other business concerns;

failure to integrate the acquired company with our existing business;

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

potential impairment of relationships with our employees and clients;

additional operating expenses not offset by additional revenue;

incurrence of significant non-recurring charges;

incurrence of additional debt with restrictive covenants or other limitations;

addition of significant amounts of intangible assets, including goodwill, that are subject to periodic assessment of impairment, primarily through comparison of market value of our stock to our net book value, with such impairment potentially resulting in a material impact on our future financial results and financial condition;

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

assumption of liabilities of the acquired company.

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

Our business involves the delivery of professional services, and our success depends on our ability to provide our clients with highly qualified and experienced consultants who possess the skills and experience necessary to satisfy their needs. At various times, such professionals can be in great demand, particularly in certain geographic areas. Our ability to attract and retain consultants with the requisite experience and skills depends on several factors including, but not limited to, our ability to:

provide our consultants with either full-time or flexible-time employment;

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

pay competitive compensation and provide competitive benefits; and

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

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

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***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. A significant portion of our options outstanding are priced at more than the current per share market value of our stock, limiting the past several years of option grants as a significant incentive to retain employees.

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

The management of our business is aided by the uninterrupted operation of our computer and telecommunication systems. These systems are vulnerable to security breaches, natural disasters, computer viruses, or other interruptions or damage stemming from power outages, equipment failure or unintended usage by employees. In addition, we rely on information technology systems to process, transmit and store electronic information and to communicate among our locations around the world and with our clients, partners and consultants. The breadth and complexity of this infrastructure increases the potential risk of security breaches, which could lead to potential unauthorized disclosure of confidential information. System-wide or local failures of these systems could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

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

Our future success depends upon the continued employment of our senior management team. The unforeseen departure of one or more key members of our senior management team could significantly disrupt our operations.

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

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

our ability to attract new clients and retain current clients;

the mix of client projects;

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

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

changes in the demand for our services by our clients;

the entry of new competitors into any of our markets;

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

the amount of vacation hours used by consultants or number of holidays in a quarter, particularly the day of the week on which they occur;

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

variation in foreign exchange rates from one quarter to the next used to translate the financial results of our international operations;

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

changes in the estimates of contingent consideration and the employee portion of contingent consideration;

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

the periodic fourth quarter consisting of 14 weeks, which next occurs during this fiscal year ending May 31, 2014.

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Additionally, in accordance with generally accepted accounting principles ( GAAP ), we estimate and record the acquisition date fair value of contingent consideration as part of purchase price consideration for acquisitions occurring subsequent to May 30, 2009. Each reporting period, if there are any uncertain contingent consideration calculations for a particular acquisition, we will estimate changes in the fair value of the contingent consideration and any change in fair value will be recognized in our consolidated statement of operations. Our estimate of the fair value of contingent consideration requires very subjective assumptions to be made of future operating results, discount rates and probabilities assigned to various potential operating result scenarios. Future revisions to these assumptions could materially change our estimate of the fair value of contingent consideration and therefore materially affect the Company's future financial results and financial condition.

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

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

Section 404 of Sarbanes requires us to evaluate periodically the effectiveness of our internal control over financial reporting, and to include a management report assessing the effectiveness of our internal controls as of the end of each fiscal year. Our management report on internal controls is contained in our Annual Report on Form 10-K for the year ended May 25, 2013 (File No. 0-32113). Section 404 also requires our independent registered public accountant to report on 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 our internal control over financial reporting was effective as of May 25, 2013, we cannot assure you that we or our independent registered public accountant will not identify a material weakness in our internal controls in the future. A material weakness in our internal control over financial reporting may require management and our independent registered public accountant to evaluate our internal controls as ineffective. If our internal control over financial reporting is not considered adequate, we may experience a loss of public confidence, which could have an adverse effect on our business and our stock price. Additionally, if our internal control over financial reporting otherwise fails to comply with the requirements of Sarbanes, our business and stock price could be adversely affected.

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

In connection with providing services to clients in certain regulated industries, such as the gaming 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.

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

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

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

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

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

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

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

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

provide that certain provisions of our certificate of incorporation and bylaws can be amended only by supermajority vote (a 66 2 / 3 % majority) of the outstanding shares. In addition, our board of directors can amend our bylaws by majority vote of the members of our board of directors;

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

provide that the authorized number of directors may be changed only by resolution of the board of directors. ***We are required to recognize compensation expense related to employee stock options and our employee stock purchase plan. There is no assurance 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.***

We measure and recognize compensation expense for all stock-based compensation based on estimated values. Thus, our operating results contain a non-cash charge for stock-based compensation expense related to employee stock options and our employee stock purchase plan. In general, accounting guidance requires the use of an option-pricing model to determine the value of share-based payment awards. This determination of value is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Because our employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective

assumptions can materially affect the estimated value, in management's opinion the existing valuation models may not provide an accurate measure of the value of our employee stock options. Although the value of employee stock options is determined using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

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

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

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***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. On March 29, 2013, we filed a United States trademark application for our RGP service mark and puzzle piece logo, Serial No. 85/890,836 as well as United States trademark applications on our RGP service mark, puzzle piece and tag line, Serial No. 85/890,838; our RGP Healthcare service mark and puzzle piece logo, Serial No. 85/890,839; our RGP Legal service mark and puzzle piece logo, Serial No. 85/890,843; and our RGP Search service mark and puzzle piece logo, Serial No. 85/890,845. We 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.

We are also currently developing a software product for the healthcare industry to address enterprise wide incident management and patient safety issues. We have applied for registration in the United States and in the appropriate jurisdictions on the service mark for this product. We intend to file for further intellectual property rights with regard to the product at the appropriate time.

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

In April 2011, our board of directors approved a stock repurchase program, authorizing the purchase, at the discretion of the Company's senior executives, of our common stock for an aggregate dollar limit not to exceed \$150 million. This program commenced in July 2011 when the previous program's authorized limit had been met. Subject to the aggregate dollar limit, the currently authorized stock repurchase program does not have an expiration date. Repurchases under the program may take place in the open market or in privately negotiated transactions and may be made pursuant to a Rule 10b5-1 plan.

The table below provides information regarding our stock repurchases made during the first quarter of fiscal 2014 under our stock repurchase program.

| Period             |                 | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid<br>per<br>Share | Total Number of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Program | Approximate Dollar<br>Value of Shares<br>that May Yet be<br>Purchased Under the<br>April<br>2011 Program |
|--------------------|-----------------|---|--|--|--|
| May 26, 2013       | June 22, 2013   |   | \$                                       |  | \$ 72,578,221  |
| June 23, 2013      | July 20, 2013   |   | \$                                       |  | 72,578,221   |
| July 21, 2013      | August 24, 2013 | 312,100                                   | \$ 13.34                                 | 312,100  | 68,416,207   |
| Total May 26, 2013 | August 24, 2013 | 312,100                                   | \$ 13.34                                 | 312,100  | \$ 68,416,207  |

**ITEM 6. EXHIBITS.**

The exhibits listed in the Exhibit Index (following the signatures page of this Report) are filed with, or incorporated by reference in, this Report.

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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: October 3, 2013

/s/ Anthony Cherbak  
Anthony Cherbak  
President and Chief Executive Officer

(Principal Executive Officer)

Date: October 3, 2013

/s/ Nathan W. Franke  
Nathan W. Franke  
Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

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**EXHIBIT INDEX**

| <b>Exhibit</b> |  |
|----------------|--|
| <b>Number</b>  | <b>Description of Document</b>   |
| 10.24+         | Employment Agreement, effective August 1, 2013, between Tracy Stephens and Resources Connection, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filing of August 1, 2013). |
| 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.  |
| 101.INS*       | XBRL Instance.   |
| 101.SCH*       | XBRL Taxonomy Extension Schema.  |
| 101.CAL*       | XBRL Taxonomy Extension Calculation.   |
| 101.DEF*       | XBRL Taxonomy Extension Definition.  |
| 101.LAB*       | XBRL Taxonomy Extension Labels.  |
| 101.PRE*       | XBRL Taxonomy Extension Presentation.  |

\* Filed herewith.

+ Indicates a management contract or compensatory plan or arrangement.