RESOURCES CONNECTION INC
Form 10-Q
October 04, 2018
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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 25, 2018

OR

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

For the transition period from __________ to __________

Commission File Number: 0-32113

RESOURCES CONNECTION, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**33-0832424**
(State or Other Jurisdiction of	**(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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

As of September 24, 2018, there were approximately 31,543,069 shares of the registrant s common stock, $0.01 par value per share, outstanding.

RESOURCES CONNECTION, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. *CONSOLIDATED FINANCIAL STATEMENTS*

RESOURCES CONNECTION, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Amounts in thousands, except par value per share)

	August 25, 2018	May 26, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,053	$ 56,470
Trade accounts receivable, net of allowance for doubtful accounts of $1,902 and $1,640 as of August 25, 2018 and May 26, 2018, respectively	137,629	130,452
Prepaid expenses and other current assets	6,801	7,230
Income taxes receivable	978	729
Total current assets	172,461	194,881
Goodwill	191,834	191,950
Intangible assets, net	17,566	18,531
Property and equipment, net	22,587	22,413
Deferred income taxes	1,475	2,850
Other assets	2,516	2,049
Total assets	$ 408,439	$ 432,674
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 22,036	$ 23,280
Accrued salaries and related obligations	38,093	58,418
Other liabilities	12,507	12,826
Total current liabilities	72,636	94,524
Long-term debt	58,000	63,000
Deferred income taxes	2,646	
Other long-term liabilities	6,836	6,325
Total liabilities	140,118	163,849

Commitments and contingencies

Stockholders equity:		
Preferred stock, $0.01 par value, 5,000 shares authorized; zero shares issued and outstanding		
Common stock, $0.01 par value, 70,000 shares authorized; 61,604 and 61,252 shares issued, and 31,498 and 31,614 shares outstanding as of August 25, 2018 and May 26, 2018, respectively	616	613
Additional paid-in capital	435,489	429,578
Accumulated other comprehensive loss	(10,987)	(10,385)
Retained earnings	337,387	335,741
Treasury stock at cost, 30,106 and 29,638 shares as of August 25, 2018 and May 26, 2018, respectively	(494,184)	(486,722)
Total stockholders equity	268,321	268,825
Total liabilities and stockholders equity	$ 408,439	$ 432,674

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)

	Three Months Ended	
	August 25, 2018	August 26, 2017
Revenue	$ 178,558	$ 141,186
Direct cost of services, primarily payroll and related taxes for professional services employees	110,407	87,488
Gross margin	68,151	53,698
Selling, general and administrative expenses	56,366	47,415
Amortization of intangible assets	955	
Depreciation expense	1,069	940
Income from operations	9,761	5,343
Interest expense	605	337
Interest income	(79)	(28)
Income before provision for income taxes	9,235	5,034
Provision for income taxes	3,494	2,922
Net income	$ 5,741	$ 2,112
Net income per common share:		
Basic	$ 0.18	$ 0.07
Diluted	$ 0.18	$ 0.07
Weighted average common shares outstanding:		
Basic	31,742	29,809
Diluted	32,468	30,059
Cash dividends declared per common share	$ 0.13	$ 0.12

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)

	Three Months Ended	
	August 25, 2018	August 26, 2017
COMPREHENSIVE INCOME:		
Net income	$ 5,741	$ 2,112
Foreign currency translation adjustment, net of tax	(602)	2,715
Total comprehensive income	$ 5,139	$ 4,827

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Unaudited)

(Amounts in thousands)

	Common Stock		Additional Paid-in	Treasury Stock		Accumulated Other Comprehensive	Retained	Total Stockholders
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Equity
Balances as of May 26, 2018	61,252	$ 613	$ 429,578	29,638	$ (486,722)	$ (10,385)	$ 335,741	$ 268,825
Exercise of stock options	186	2	2,407					2,409
Stock-based compensation expense			1,327					1,327
Issuance of common stock under Employee Stock Purchase Plan	166	1	2,177					2,178
Purchase of shares				468	(7,462)			(7,462)
Cash dividends declared ($0.13 per share)							(4,095)	(4,095)
Currency translation adjustment						(602)		(602)
Net income for the three months ended August 25, 2018							5,741	5,741
Balances as of August 25, 2018	61,604	$ 616	$ 435,489	30,106	$ (494,184)	$ (10,987)	$ 337,387	$ 268,321

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

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RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	Three Months Ended	
	August 25, 2018	**August 26, 2017**
Cash flows from operating activities:		
Net income	$ 5,741	$ 2,112
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,024	940
Stock-based compensation expense	1,361	1,612
Contingent consideration adjustment	97	
Loss (gain) on disposal of assets	4	(3)
Bad debt expense	487	303
Deferred income taxes	3,997	(205)
Changes in operating assets and liabilities, net of effects of business combinations:		
Trade accounts receivable	(8,367)	(30)
Prepaid expenses and other current assets	413	(1,101)
Income taxes	(1,445)	1,582
Other assets	(483)	45
Accounts payable and accrued expenses	(1,182)	36
Accrued salaries and related obligations	(20,163)	(18,761)
Other liabilities	915	341
Net cash used in operating activities	(16,601)	(13,129)
Cash flows from investing activities:		
Proceeds from sale of property and equipment		1
Purchase of property and equipment	(1,073)	(383)
Net cash used in investing activities	(1,073)	(382)
Cash flows from financing activities:		
Proceeds from exercise of stock options	2,409	530
Proceeds from issuance of common stock under Employee Stock Purchase Plan	2,178	2,259
Purchase of common stock	(7,462)	
Repayment on Revolving Credit Facility	(5,000)	
Cash dividends paid	(3,792)	(3,254)
Net cash used in financing activities	(11,667)	(465)

Effect of exchange rate changes on cash	(76)	1,254
Net decrease in cash	(29,417)	(12,722)
Cash and cash equivalents at beginning of period	56,470	62,329
Cash and cash equivalents at end of period	$ 27,053	$ 49,607

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

RESOURCES CONNECTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Three months ended August 25, 2018 and August 26, 2017

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 business consulting firm; its operating entities provide services primarily under the name Resources Global Professionals (RGP or the Company). The Company provides agile consulting services and talent to its global client base utilizing experienced professionals in the areas of accounting; finance; governance, risk and compliance management; corporate advisory, strategic communications and restructuring; information management; human capital; supply chain management; and legal and regulatory. The Company has offices in the United States (U.S.), Asia, Australia, Canada, Europe and Mexico.

The Company s fiscal year consists of 52 or 53 weeks, ending on the last Saturday in May. The first quarters of fiscal 2019 and 2018 each consisted of 13 weeks.

2. Summary of Significant Accounting Policies

Interim Financial Information

The financial information as of and for the three months ended August 25, 2018 and August 26, 2017 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) the Company considers necessary for a fair presentation of its financial position at such dates and the operating results and cash flows for those periods. The fiscal 2018 year-end balance sheet data was derived from audited financial statements, and certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the U.S. (GAAP) have been condensed or omitted pursuant to Securities and Exchange Commission (SEC) rules or regulations; however, the Company believes the disclosures made are adequate to make the information presented not misleading.

The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for the full fiscal year. These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended May 26, 2018, which are included in the Company s Annual Report on Form 10-K for the year then ended (File No. 0-32113).

Revenue Recognition

Effective May 27, 2018, the Company adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606), using the modified retrospective method, which allows companies to apply the new revenue standard to reporting periods beginning in the year the standard is first implemented, while prior periods continue to be reported in accordance with previous accounting guidance. The adoption of ASC 606 did not have a significant impact on revenue recognition; therefore, the Company did not have an opening retained earnings adjustment.

Revenues are recognized when control of the promised service is transferred to the Company s clients, in an amount that reflects the consideration expected in exchange for the services. Revenue is recorded net of sales or other transaction taxes collected from clients and remitted to taxing authorities. Revenues from contracts are recognized over time, based on hours worked by the Company s professionals. The performance of the agreed-to service over time is the single performance obligation for revenues. Certain clients may receive discounts (for example, volume discounts or rebates) to the amounts billed. These discounts or rebates are considered variable consideration. Management evaluates the facts and circumstances of each contract and client relationship to estimate the variable consideration assessing the most likely amount to recognize and considering management s expectation of the volume of services to be provided over the applicable period. Rebates are the largest component of variable consideration and are estimated using the most likely amount method prescribed by ASC 606, contracts terms and estimates of revenue. Revenues are recognized net of variable consideration to the extent that it is probable that a significant reversal of revenues will not occur in subsequent periods.

On a limited basis, the Company may have fixed-price contracts, for which revenues are recognized over time using the input method based on time incurred as a proportion of estimated total time. Time incurred represents work performed, which corresponds with, and therefore best depicts, the transfer of control to the client. Management uses significant judgments when estimating the total hours expected to complete the contract performance obligation. It is possible that updated estimates for consulting engagements may vary from initial estimates with such updates being recognized in the period of determination. Depending on the timing of billings and services rendered, the Company accrues or defers revenue as appropriate.

The Company recognizes revenues on a gross basis as it acts as a principal for primarily all of its revenue transactions. The Company has concluded that gross reporting is appropriate because the Company a) has the risk of identifying and hiring qualified

consultants; b) has the discretion to select the consultants and establish the price and responsibilities for services to be provided; and c) bears the risk for services provided that are not fully paid for by clients. 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 $3.3 million and $2.6 million for the three months ended August 25, 2018 and August 26, 2017, respectively.

The Company s clients are contractually obligated to pay the Company for all hours billed. We invoice the majority of our clients on a weekly basis or, in certain circumstances, on a monthly basis, in accordance with our standard arrangement of payment due within 30 days. To a much lesser extent, the Company also earns revenue if one of our consultants is hired by, or if the Company places an outside candidate with, its client. Conversion fees or permanent placement fees are recognized when one of the Company s professionals or a candidate identified by the Company, accepts an offer of permanent employment from a client and all requisite terms of the agreement have been met. Such conversion fees or permanent placement fees are recognized when the performance obligation is considered complete, which the Company considers a) when the consultant or candidate accepts the position; b) the consultant or candidate has notified either RGP or their current employer of their decision; and c) the start date is within the Company s current quarter. Conversions fees were 0.5% and 0.5% of revenue for the quarters ended August 25, 2018 and August 26, 2017, respectively, while permanent placement fees were 0.6% and 0.1% of revenue for the quarters ended August 25, 2018 and August 26, 2017, respectively.

The Company s contracts generally have termination for convenience provisions and do not have termination penalties. While our clients are contractually obligated to pay the Company for all hours billed, the Company does not have long-term agreements with its clients for the provision of services and the Company s clients may terminate engagements at any time. All costs of compensating the Company s professionals are the responsibility of the Company and are included in direct cost of services.

Foreign Currency Translation

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

Net Income Per Share Information

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

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

	Three Months Ended	
	August 25, 2018	August 26, 2017
Net income	$ 5,741	$ 2,112
Basic:		
Weighted average shares	31,742	29,809
Diluted:		
Weighted average shares	31,742	29,809
Potentially dilutive shares	726	250
Total dilutive shares	32,468	30,059
Net income per common share:		
Basic	$ 0.18	$ 0.07
Dilutive	$ 0.18	$ 0.07
Anti-dilutive shares not included above	2,975	5,182

Stock-Based Compensation

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

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

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

Use of Estimates

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

3. Acquisitions

During fiscal 2018, the Company completed two acquisitions. The first acquisition, completed August 31, 2017 (the second quarter of fiscal 2018), was of *taskforce* Management on Demand AG *(taskforce)*, a German based professional services firm founded in 2007, that provides clients with senior interim management and project management expertise. The Company paid initial consideration of 5.8 million (approximately $6.9 million at the date of acquisition) in a combination of cash and restricted stock.

In addition, the purchase agreement for *taskforce* requires additional earn-out payments to be made based on performance in calendar years 2017, 2018 and 2019. Under accounting rules for business combinations, obligations that are contingently payable to the sellers based upon the occurrence of one or more future events are recorded as a discounted liability on the Company s balance sheet. The Company is obligated to pay the sellers in Euros as follows: for calendar year 2017, Adjusted EBITDA times 6.1 times 20%; and for both calendar years 2018 and 2019, Adjusted EBITDA times 6.1 times 15%; (Adjusted EBITDA is calculated as defined in the purchase agreement). The payment for calendar 2017 of 2.1 million was made March 28, 2018. The Company estimated the fair value of the obligation to pay the remaining contingent consideration based on a number of different projections of the estimated Adjusted EBITDA for each of the calendar years. The Company recorded this future obligation using a discount rate of approximately 11.0%, representing the Company s weighted average cost of capital. The current estimated fair value of the contractual obligation to pay the contingent consideration for calendar years 2018 and 2019 totals 3.9 million (approximately $4.5 million based on the exchange rate on the last day of the first quarter of fiscal 2019) as of August 25, 2018. Each reporting period, the Company will estimate changes in the fair value of contingent consideration and any change in fair value will be recognized in the Company s Consolidated Statements of Operations. The estimate of fair value of contingent consideration requires very subjective assumptions to be made of

various potential Adjusted EBITDA results and discount rates. Future revisions to these assumptions could materially change the estimate of the fair value of contingent consideration and therefore could materially affect the Company s future operating results. During the first quarter of fiscal 2019, the Company increased the estimated contingent consideration by 84,000 ($97,000) and recognized accretion expense on the discounted liability. These amounts are included in S, G & A for the quarter. Results of operations of *taskforce* are included in the Consolidated Statements of Operations from the date of acquisition. *taskforce* contributed $4.2 million to revenue in the first quarter of fiscal 2019.

The second acquisition occurred December 4, 2017 (the third quarter of fiscal 2018) when the Company acquired substantially all of the assets and assumed certain liabilities of Accretive Solutions, Inc. (Accretive). Accretive was a professional services firm that provided expertise in accounting and finance, enterprise governance, business technology and business transformation solutions to a wide variety of organizations in the U.S. and supported startups through its Countsy suite of back office services. The Company paid consideration of $20.0 million in cash and issued 1,072,000 shares of Resources Connection, Inc. common stock restricted for sale for four years; additional cash and shares of Company stock will be due, subject to working capital adjustments. As of the end of the first quarter of fiscal 2019, the amounts due upon working capital adjustments are estimated at $0.1 million in cash and 108,000 in additional shares of common stock and are accrued as a liability on the balance sheet as of August 25, 2018. The Company completed its integration of the operations of Accretive into its business model as of the first day of fiscal 2019 and thus the Company is unable to estimate the impact of additional revenue attributable to the Accretive acquisition in the first quarter of fiscal 2019.

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4. Intangible Assets and Goodwill

The following table summarizes details of the Company s intangible assets and related accumulated amortization (amounts in thousands):

	As of August 25, 2018			As of May 26, 2018		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer contracts and relationships (3-8 years)	$ 14,561	$ (1,814)	$ 12,747	$ 14,565	$ (1,263)	$ 13,302
Tradenames (3-10 years)	4,477	(817)	3,660	4,481	(560)	3,921
Consultant list (3 years)	813	(272)	541	815	(205)	610
Non-compete agreements (3 years)	930	(311)	619	932	(234)	698
Total	$ 20,781	$ (3,214)	$ 17,567	$ 20,793	$ (2,262)	$ 18,531

The Company recorded amortization expense for the quarter ended August 25, 2018 of $1.0 million. Future estimated intangible asset amortization expense (based on existing intangible assets) is $3.8 million, $3.8 million, $2.5 million, $1.8 million and $1.8 million for the years ending May 25, 2019, May 30, 2020, May 29, 2021, May 28, 2022 and May 27, 2023, respectively. The estimates of future intangible asset amortization expense do not incorporate the potential impact of future currency fluctuations when translating the financial results of the Company s international operations that have amortizable intangible assets into U.S. dollars.

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

	August 25, 2018	August 26, 2017
Goodwill, beginning of year	$ 191,950	$ 171,088
Impact of foreign currency exchange rate changes	(116)	1,254
Goodwill, end of period	$ 191,834	$ 172,342

5. Income Taxes

On December 22, 2017, Congress enacted H.R.1, the Tax Cuts and Jobs Act (Tax Reform Act), which made significant changes to U.S. federal income tax laws including reducing the corporate rate from 35% to 21% effective January 1, 2018. In December 2017, the SEC issued Staff Accounting Bulletin No. 118 which allows the Company to record provisional amounts related to the impact of the Tax Reform Act and adjust those amounts during a measurement period not to extend more than one year from date of enactment. During fiscal 2018 the Company recorded a provisional income tax benefit of approximately $0.8 million upon re-measurement of U.S. deferred tax assets and liabilities at the rate the balances are expected to be realized. Also during fiscal 2018 the Company provided for $3.4 million of capital gains tax offset by $3.4 million of newly established deferred tax assets for foreign tax credits that resulted from dividend distributions. Both the capital gains tax and the newly established deferred tax assets were based upon a strict reading of the Internal Revenue Code at the time. Subsequently, the U.S. Treasury

Department and the IRS released proposed regulations clarifying the relevant calculations and as a result, both the capital gains tax of $3.4 million and newly established deferred tax assets of $3.4 million were reversed during the three months ended August 25, 2018.

The Tax Reform Act also includes the Global Intangible Low-Tax Income (GILTI) provision, a new mechanism for taxing certain foreign profits, the Base Erosion Anti-Abuse Tax (BEAT), a minimum tax on payments to related parties, and the Foreign-Derived Intangible Income provision, a tax incentive to earn income abroad. The Company is permitted to make an accounting policy election to account for GILTI as either a period charge when the tax arises or as a part of deferred taxes. Due to the complexity of the GILTI provisions, the Company is still evaluating the impact on future periods and has not yet elected an accounting policy regarding GILTI. The Company has recognized provisional tax impacts associated with GILTI as a current expense for the three months ended August 25, 2018.

The Company s provision for income taxes was $3.5 million (effective tax rate of approximately 38%) and $2.9 million (effective tax rate of approximately 58%) for the three months ended August 25, 2018 and August 26, 2017, respectively. The Company records tax expense based upon an actual effective tax rate versus a forecasted tax rate because of the volatility in its international operations that span numerous tax jurisdictions.

The provision for income taxes in the three months ended August 25, 2018 and August 26, 2017 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 provision for income taxes increased for the three months ended August 25, 2018 compared to the prior year quarter because of improved global income. The effective tax rate decreased for the three months ended August 25, 2018 compared to the prior year quarter primarily due to the reduction in the U.S. statutory federal tax rate and due to the improved foreign results.

The Company recognized tax expense of approximately $0.1 million and tax benefit of approximately $0.4 million related to stock-based compensation for nonqualified stock options expensed and for disqualifying dispositions under the ESPP during the first quarter of fiscal 2019 and 2018, respectively.

6. Long-Term Debt

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

The Facility contains both affirmative and negative covenants. Covenants include, but are not limited to, limitations on the Company s and its subsidiaries ability to incur liens, incur additional indebtedness, make certain restricted payments, merge or consolidate and make disposition of assets. In addition, the Facility requires the Company to comply with financial covenants limiting the Company s total funded debt, minimum interest coverage ratio and maximum leverage ratio. The Company was in compliance with all financial covenants under the Facility as of August 25, 2018.

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

The Company s borrowings on the Facility were $58.0 million as of August 25, 2018. In addition, the Company has $1.3 million of outstanding letters of credit issued under the Facility. The Company has $30.7 million remaining to borrow under the Revolving Loan and $30.0 million remaining under the Reducing Revolving Loan as of August 25, 2018. As of August 25, 2018, the interest rate on the Company s borrowings was 3.7% on a tranche of $24.0 million (2-month LIBOR plus 1.50%), 4.0% on a tranche of $19.0 million (6-month LIBOR plus 1.50%) and 4.0% on a tranche of $15.0 million (6-month LIBOR plus 1.5%).

7. Stockholders Equity

Stock Repurchase Program

In July 2015, the Company s board of directors approved a stock repurchase program (the July 2015 program), authorizing the repurchase, at the discretion of the Company s senior executives, of the Company s common stock for an aggregate dollar limit not to exceed $150 million. Repurchases under the program may take place in the open market or in privately negotiated transactions and may be made pursuant to a Rule 10b5-1 plan. During the three months ended August 25, 2018, the Company purchased 467,912 shares of its common stock on the open market at an average price of $15.95 per share, for approximately $7.5 million. As of August 25, 2018, approximately $112.5 million remained available for future repurchases of the Company s common stock under the July 2015 program.

8. Supplemental Disclosure of Cash Flow Information

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

	Three Months Ended	
	August 25, 2018	August 26, 2017
Income taxes paid	$ 844	$ 1,575
Interest paid	$ 607	$ 332
Non-cash investing and financing activities:		
Capitalized leasehold improvements paid directly by landlord	$ 203	$
Dividends declared, not paid	$ 4,095	$ 3,578

9. Stock-Based Compensation Plans

Stock Options and Restricted Stock

The maximum number of shares of the Company s common stock that may be issued or transferred pursuant to awards under the 2014 Plan equals the sum of: (1) 2,400,000 shares, plus (2) the number of shares subject to stock options granted under the Resources Connection, Inc. 2004 Performance Incentive Plan and the 1999 Long Term Incentive Plan (the Prior Stock Plans) and outstanding as of September 3, 2014 (the date at which the Prior Stock Plans terminated), which expire, or for any reason are cancelled or terminated, after that date without being exercised, plus (3) the number of shares subject to restricted stock, RSUs and other full-value awards granted under the Prior Stock Plans that were outstanding and unvested as of September 3, 2014, which are forfeited, terminated, cancelled, or otherwise reacquired after that date without having become vested. As of August 25, 2018, 2,503,000 shares were available for award grant purposes under the 2014 Plan, subject to future increases as described in (2) and (3) above and subject to increase as then-outstanding awards expire or terminate without having become vested or exercised, as applicable.

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

the exercise of stock options.

The following table summarizes the stock option activity for the three months ended August 25, 2018 (number of shares under option and aggregate intrinsic value in thousands):

	Number of Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at May 26, 2018	6,869	$ 15.10	5.50	$ 12,310
Exercised	(186)	$ 12.90		
Forfeited	(82)	$ 15.24		
Expired	(169)	$ 20.07		
Outstanding at August 25, 2018	6,432	$ 15.03	5.36	$ 8,550
Exercisable at August 25, 2018	4,361	$ 14.88	3.94	$ 7,664
Vested and expected to vest at August 25, 2018	6,276	$ 15.02	5.27	$ 8,508

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 2019 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 25, 2018. This amount will change based on changes in the fair market value of the Company s common stock. The total pre-tax intrinsic value related to stock options exercised during the three months ended August 25, 2018 and August 26, 2017 was $0.8 million and $73,000, respectively.

Stock-Based Compensation Expense

As of August 25, 2018, there was $5.6 million of total unrecognized compensation cost related to unvested employee stock options granted. That cost is expected to be recognized over a weighted-average period of 29 months. Stock-based compensation expense included in selling, general and administrative expenses was $1.4 million and $1.6 million for the three months ended August 25, 2018 and August 26, 2017, respectively. These amounts consisted of stock-based compensation expense related to employee stock options employee stock purchases made via the ESPP and restricted stock awards. In addition, commencing in the third quarter of fiscal 2018, stock-based compensation expense includes expense related to stock units credited under the Directors Deferred Compensation Plan. For the three months ended August 25, 2018, this expense was $34,000. As of August 25, 2018, there were 34,715 stock units not vested, with approximately $0.5 million of remaining unrecognized compensation cost. There were no capitalized share-based compensation costs during the three months ended August 25, 2018 or August 26, 2017.

The Company granted no restricted stock during either the three months ended August 25, 2018 or August 26, 2017. Stock-based compensation expense for existing restricted stock awards was $0.4 million and $0.3 million for the three months ended August 25, 2018 and August 26, 2017, respectively. As of August 25, 2018, there were 234,628 unvested restricted shares, with approximately $2.7 million of remaining unrecognized compensation cost.

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

Employee Stock Purchase Plan

The ESPP allows qualified employees (as defined in the ESPP) to purchase designated shares of the Company s common stock at a price equal to 85% of the lesser of the fair market value of common stock at the beginning or end of each semi-annual stock purchase period. The ESPP s term expires October 16, 2024. A total of 5,900,000 shares of common stock may be issued under the ESPP. The Company issued 166,000 and 338,000 shares of common stock pursuant to the ESPP during the three months ended August 25, 2018 and the year ended May 26, 2018, respectively. There were 414,000 shares of common stock available for issuance under the ESPP as of August 25, 2018.

10. Segment Information and Enterprise Reporting

The Company discloses information regarding operations outside of the U.S. The Company operates as one segment. The accounting policies for the domestic and international operations are the same as those described in Note 2 *Summary of Significant Accounting Policies* in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended May 26, 2018. Summarized information regarding the Company s domestic and international operations is shown in the following table (amounts in thousands):

	Revenue for the Three Months Ended		Long-Lived Assets (1) as of	
	August 25, 2018	August 26, 2017	August 25, 2018	May 26, 2018
United States	$ 141,229	$ 113,125	$ 197,924	$ 198,280
International	37,329	28,061	34,063	34,614
Total	$ 178,558	$ 141,186	$ 231,987	$ 232,894

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

11. Legal Proceedings

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

12. Recent Accounting Pronouncements

Accounting Pronouncements Adopted During Current Fiscal Year

Revenue from Contracts with Customers (Topic 606): In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, a comprehensive new revenue recognition standard that supersedes current revenue recognition guidance and is intended to improve and converge revenue recognition and related financial reporting requirements. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Effective the beginning of fiscal year 2019 (May 27, 2018), the Company adopted ASC 606, *Revenue from Contracts with Customers*, using the modified retrospective method, which allows companies to apply the new revenue standard to reporting periods beginning in the year the standard is first implemented, while prior periods continue to be reported in accordance with previous accounting guidance. The adoption of ASC 606 did not have a significant impact on revenue recognition; therefore, the Company did not have an opening retained earnings adjustment. See Note 2 *Summary of Significant Accounting Policies* for additional information.

Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. In August 2018, the FASB issued ASU 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). An entity in a hosting arrangement that is a service contract must determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Costs that cannot be capitalized include training costs, certain data conversion costs, costs incurred during preliminary project and postimplementation stages. Costs that are subject to evaluation for potential capitalization are incurred during the application development stage. The guidance also specifies factors to consider when developing the period over which to amortize the capitalized costs once the arrangement is deployed for usage by the entity and elements to consider in analyzing potential impairment of the asset.

The guidance is effective for financial statements for annual periods beginning after December 15, 2019 (for the Company, fiscal 2021) and for interim periods within those fiscal years. However, early adoption is permitted. The Company adopted this guidance prospectively in the first quarter of fiscal 2019 as the Company has an initiative involving a cloud computing arrangement that is a service contract for its processing of payroll. The amount capitalized in the first quarter of fiscal 2019 was approximately $0.4 million and is accounted for in Other Assets in the Company s Consolidated Balance Sheet.

Compensation Stock Compensation (Topic 718): Scope of Modification Accounting. In May 2017, the FASB issued ASU 2017-09, which clarifies when changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the new guidance, modification accounting is only required if the fair value, vesting conditions or classification (equity or liability) of the new award are different from the original award

immediately before the original award is modified. The new standard is effective for financial statements for annual periods beginning after December 15, 2017 and was adopted by the Company effective May 27, 2018. The guidance must be applied prospectively to awards modified on or after the adoption date. The future impact of ASU 2017-09 will be dependent on the nature of future stock award modifications.

Accounting Pronouncements Pending Adoption

Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued ASU 2017-04, which provides guidance regarding the goodwill impairment testing process. The new standard eliminates Step 2 of the goodwill impairment test. If a company determines in Step 1 of the goodwill impairment test that the carrying value of goodwill is greater than the fair value, an impairment for that difference must be recorded in the income statement, rather than proceeding to Step 2. The new standard is effective for financial statements for annual periods beginning after December 15, 2019 (for the Company, fiscal 2021). Early adoption is permitted for interim or annual goodwill impairments tests performed on testing dates after January 1, 2017. Based on the Company s most recent annual goodwill impairment test completed in fiscal 2018, the Company expects no initial impact on adoption.

Leases (Topic 842): Leases. In February 2016, the FASB issued ASU 2016-02, which amends the existing guidance to require lessees to recognize operating lease obligations on their balance sheets by recording the rights and obligations created by those leases.

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The requirements are effective for financial statements for annual periods and interim periods within those annual periods beginning after December 15, 2018 (for the Company, fiscal 2020), and early adoption is permitted. The Company is currently evaluating the impact ASU 2016-02 will have on its consolidated financial statements and believes it will have a significant impact on the Company s reported balance sheet assets and liabilities. Under current accounting guidelines, the Company s office leases are operating lease arrangements, in which rental payments are treated as operating expenses and there is no recognition of the arrangement on the balance sheet as an asset with the related obligation to the lessor as a liability.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and accompanying notes. This discussion and analysis contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to expectations concerning matters that are not historical facts. Such forward-looking statements may be identified by words such as anticipates, believes, can, continue, could, estimates, expects, intends, may, plans, potential, predicts, rer the negative of these terms or other comparable terminology. These statements, and all phases of our operations, are subject to known and unknown risks, uncertainties and other factors that could cause our actual results, levels of activity, performance or achievements and those of our industry to differ materially from those expressed or implied by these forward-looking statements. You are urged to review carefully the disclosures we make concerning risks, uncertainties and other factors that may affect our business or operating results, including those identified in Part II, Item 1A, Risk Factors below and in our Annual Report on Form 10-K for the year ended May 26, 2018 (File No. 0-32113). Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business or operating results. Readers are cautioned not to place undue reliance on the forward-looking statements included herein, which speak only as the date of this filing. We do not intend, and undertake no obligation, to update the forward-looking statements in this filing to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events, unless required by law to do so. References in this filing to Resources Connection, RGP, Resources Global Professionals, the Company, we, us, and our refer to Reso Connection, Inc. and its subsidiaries.

Overview

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

- Finance and accounting including process transformation and optimization; financial reporting and analysis; technical and operational accounting; merger and acquisition due diligence and integration; audit readiness,

preparation and response; implementation of the requirements of new accounting standards, such as revenue recognition and lease accounting; and remediation support

Information management including program and project management; business and technology integration; data strategy including governance, security and privacy (such as the European General Data Protection Regulation); and business performance management (such as core planning and consolidation systems)

Corporate advisory, strategic communications, crisis communications and restructuring

Governance, risk and compliance management including governance; assessments; auditing and automation of programs managing regulatory compliance such as Sarbanes; enterprise risk management; internal audits; operational risk management; and data security and privacy services

Supply chain management including strategy development; procurement and supplier management; logistics and materials management; supply chain planning and forecasting; and Unique Device Identification compliance

Human capital including change management; organization development and effectiveness; employment engagement; compensation and incentive plan strategies and design and optimization of human resources technology and operations

Legal and regulatory supporting commercial transactions; global compliance initiatives; law department operations; and law department business strategy and analytics

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

We operated solely in the United States (U.S.) until fiscal year 2000, when we opened our first three international offices and began to expand geographically to meet the demand for project consulting services across the world. As of August 25, 2018, we served clients from offices in 21 countries, including 26 international offices and 48 offices in the United States. Our world-wide footprint allows the Company to support the global initiatives of our multinational client base.

The Company announced certain strategic initiatives in April 2017. The first initiative focused on cultivating a more sophisticated and robust sales culture. The Company has now completed this initiative. Among the features of the initiative are enhanced training activities; the alignment of the Company s sales process using tools such as Salesforce.com and the establishment of an enterprise-wide business development function; and the current year initiation of a new incentive compensation program for individuals focused on profitable revenue generation and gross margin. The new incentive compensation program rewards individuals for achieving or exceeding pre-determined sales goals, with bonus multipliers applicable for exceeding goals; the rewards for sales achievement are tied to both gross margin goals and qualitative goals associated with the Company s culture of LIFE at RGP . Finally, to complete this initiative, the Company expanded its Strategic Client Program, which involves a dedicated account team for certain high profile clients with world-wide operations.

The Company is close to completing its second initiative to redesign the Company s business model to enhance its client offerings, with a focus on building its integrated solutions capabilities and delivering multi-disciplinary offerings to its clients in three areas of focus Transaction Services, Technical Accounting Services, and Data & Analytics. During fiscal 2018, the Company implemented the new operating model for sales, talent and integrated solutions within RGP for all of North America; that is, reporting relationships are now largely defined by functional area rather than on an office location basis. We believe this effort has already delivered improved revenue growth and improved customer experience into fiscal 2019. The rollout of the operating model will continue in Europe and Asia Pacific during the current fiscal year.

The third initiative focuses on cost containment. Goals of this initiative include (i) improving leverage of selling, general and administrative expenses (S, G & A) as a percentage of revenue and (ii) realizing cost synergies in the core business and with the Accretive acquisition. Although S, G & A as a percentage of revenue decreased to 31.6% in the first quarter of fiscal 2019 as compared to the fourth quarter of fiscal 2018 s 32.0%, RGP remains committed to managing its cost structure to achieve improved S, G & A performance as measured against revenue throughout fiscal 2019.

During fiscal 2018, the Company completed two acquisitions. The first acquisition, completed August 31, 2017 (the second quarter of fiscal 2018), was of *taskforce* Management on Demand AG *(taskforce)*, a German based professional services firm founded in 2007, that provides clients with senior interim management and project management expertise. The Company paid initial consideration of 5.8 million (approximately $6.9 million at the date of acquisition) in a combination of cash and restricted stock.

In addition, the purchase agreement for *taskforce* requires additional earn-out payments to be made based on performance in calendar years 2017, 2018 and 2019. Under accounting rules for business combinations, obligations that are contingently payable to the sellers based upon the occurrence of one or more future events are recorded as a discounted liability on the Company s balance sheet. The Company is obligated to pay the sellers in Euros as follows: for calendar year 2017, Adjusted EBITDA times 6.1 times 20%; and for both calendar years 2018 and 2019, Adjusted EBITDA times 6.1 times 15%; (Adjusted EBITDA is calculated as defined in the purchase agreement). The payment for calendar 2017 of 2.1 million was made March 28, 2018. The Company estimated the fair value of the obligation to pay the remaining contingent consideration based on a number of different projections of the estimated Adjusted EBITDA for each of calendar years 2018 and 2019. The Company recorded this future obligation using a discount rate of approximately 11.0%, representing the Company s weighted average cost of capital. The current estimated fair value of the contractual obligation to pay the contingent consideration for calendar years 2018 and 2019 totals 3.9 million (approximately $4.5 million based on the exchange rate on the last day of the first quarter of fiscal 2019) as of August 25, 2018. Each reporting period, the Company will estimate changes in the fair value of contingent consideration and any change in fair value will be recognized in the Company s Consolidated Statements of Operations. The estimate of fair value of contingent consideration requires very subjective assumptions to be made of various potential Adjusted EBITDA results and discount rates. Future revisions to these assumptions could materially change the estimate of the fair value of contingent consideration and therefore could materially affect the Company s future operating results. During the first quarter of fiscal 2019, the Company increased the estimated contingent consideration by 84,000 ($97,000) and recognized accretion expense on the discounted liability. These amounts are included in S, G & A for the quarter. Results of operations of *taskforce* are included in the Consolidated Statements of Operations from the date of acquisition. *taskforce* contributed $4.2 million to revenue in the first quarter of fiscal 2019.

The second acquisition occurred December 4, 2017 (the third quarter of fiscal 2018) when the Company acquired substantially all of the assets and assumed certain liabilities of Accretive Solutions, Inc. (Accretive). Accretive was a professional services firm that

provided expertise in accounting and finance, enterprise governance, business technology and business transformation solutions to a wide variety of organizations in the U.S. and supported startups through its Countsy suite of back office services. The Company paid consideration of $20.0 million in cash and issued 1,072,000 shares of Resources Connection, Inc. common stock restricted for sale for four years; additional cash and shares of Company stock will be due, subject to working capital adjustments. As of the end of the first quarter of fiscal 2019, the amounts due upon working capital adjustments are estimated at $0.1 million in cash and 108,000 in additional shares of common stock and are accrued as a liability on the balance sheet as of August 25, 2018. The Company completed its integration of the operations of Accretive into its business model as of the first day of fiscal 2019 and thus the Company is unable to estimate the impact of additional revenue attributable to the Accretive acquisition in the first quarter of fiscal 2019.

Critical Accounting Policies

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

The following represents a summary of our critical accounting policies, defined as those policies we believe: (a) are the most important to the portrayal of our financial condition and results of operations and (b) involve inherently uncertain issues that require management s most difficult, subjective or complex judgments. The Company s accounting policies were revised in connection with the adoption of ASC 606 (described further in Note 2 Summary of Significant Accounting Policies in Part I, Item 1, of this Quarterly Report on Form 10-Q). 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 26, 2018.

Revenue recognition Revenues are recognized when control of the promised service is transferred to our clients, in an amount that reflects the consideration expected in exchange for the services. Revenue is recorded net of sales or other transaction taxes collected from clients and remitted to taxing authorities. Revenues from contracts are recognized over time, based on hours worked by the Company s professionals. The performance of the agreed-to service over time is the single performance obligation for revenues. Certain clients may receive discounts (for example, volume discounts or rebates) to the amounts billed. These discounts or rebates are considered variable consideration. Management evaluates the facts and circumstances of each contract and client relationship to estimate the variable consideration assessing the most likely amount to recognize and considering management s expectation of the volume of services to be provided over the applicable period. Rebates are the largest component of variable consideration and are estimated using the most likely amount method prescribed by ASC 606, contracts terms and estimates of revenue. Revenues are recognized net of variable consideration to the extent that it is probable that a significant reversal of revenues will not occur in subsequent periods.

Valuation of long-lived assets We assess the potential impairment of long-lived tangible and intangible assets periodically or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Identifiable intangibles assets are amortized over their lives, typically ranging from three to ten years. Goodwill is not subject to amortization. This asset is considered to have an indefinite life and its carrying value is required to be assessed by us for impairment at least annually. Depending on future market values of our stock, our operating performance and other factors, these assessments could potentially result in impairment reductions of this intangible asset in the future and this adjustment may materially affect the Company s future financial results and financial condition.

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

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

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

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

The Company uses its historical volatility over the expected life of the stock option award to estimate the expected volatility of the price of its common stock. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The impact of expected dividends ($0.13 per share in the first quarter of fiscal 2019 and $0.12 per share in each quarter of fiscal 2018) is also incorporated in determining the estimated value per share of employee stock option grants. Such dividends are subject to quarterly board of director approval. The Company s expected life of stock option grants is 5.7 years for non-officers and 8.2 years for officers. The Company uses its historical volatility over the expected life of the stock option award to estimate the expected volatility of the price of its common stock. The Company reviews the underlying assumptions related to stock-based compensation at least annually.

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

Results of Operations

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

	Three Months Ended	
	August 25, 2018	August 26, 2017
	(Amounts in thousands)	
Revenue	$ 178,558	$ 141,186
Direct cost of services	110,407	87,488
Gross margin	68,151	53,698
Selling, general and administrative expenses	56,366	47,415
Amortization of intangible assets	955	

Depreciation expense	1,069	940
Income from operations	9,761	5,343
Interest expense	605	337
Interest income	(79)	(28)
Income before provision for income taxes	9,235	5,034
Provision for income taxes	3,494	2,922
Net income	$ 5,741	$ 2,112

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

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	Three Months Ended	
	August 25, 2018	August 26, 2017
	(Amounts in thousands)	
Net income	$ 5,741	$ 2,112
Adjustments:		
Amortization of intangible assets	955	
Depreciation expense	1,069	940
Interest expense	605	337
Interest income	(79)	(28)
Provision for income taxes	3,494	2,922
EBITDA	11,785	6,283
Stock-based compensation expense	1,361	1,612
Contingent consideration adjustment	97	
Adjusted EBITDA	$ 13,243	$ 7,895
Revenue	$ 178,558	$ 141,186
Adjusted EBITDA Margin	7.4%	5.6%

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

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

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

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

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

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

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

Three Months Ended August 25, 2018 Compared to Three Months Ended August 26, 2017

Percentage change computations are based upon amounts in thousands.

***Revenue*.** Revenue increased $37.4 million, or 26.5%, to $178.6 million for the three months ended August 25, 2018 from $141.2 million for the three months ended August 26, 2017. On a constant currency basis, revenue increased 26.6%. Revenue in the first quarter of fiscal 2019 includes $4.2 million in revenue attributable to *taskforce,* which the Company acquired in the second quarter of

fiscal 2018. It is not possible to isolate the revenue of Accretive (which we acquired in the second quarter of fiscal 2018) after the completion of the integration of Accretive operations into RGP at the beginning of the first quarter of fiscal 2019. Excluding the revenue of *taskforce*, revenue increased $33.2 million, or 23.5%. We deliver our services to clients, whether multi-national or locally based, in a similar fashion across the globe. Bill rates improved 2.5% (the same on a constant currency basis) and hours worked increased 23.5% between the two periods. The Company experienced an upswing in revenue in certain industries and markets during the quarter compared to the prior year quarter; however, consistent with recent trends, the Company s revenue in the financial services industry was down quarter-over-quarter. The timing of the result of our efforts to improve our client penetration in the financial services industry is uncertain. We believe the improvement in revenue for the current quarter as compared to the prior year quarter is in part the product of the operational changes made throughout fiscal 2018, including the usage of Salesforce as a tool to measure individual productivity directly and structuring reporting lines with a function and client focus.

As presented in the table below, revenue increased in the first quarter of fiscal 2019 compared to the same quarter of fiscal 2018 in North America, Europe and Asia Pacific (dollars in thousands):

	Revenue for the Three Months Ended			% of Total	
	August 25, 2018	August 26, 2017	% Change	August 25, 2018	August 26, 2017
North America	$ 146,171	$ 115,937	26.1%	81.9%	82.1%
Europe	20,684	15,149	36.5%	11.6	10.7
Asia Pacific	11,703	10,100	15.9%	6.5	7.2
Total	$ 178,558	$ 141,186	26.5%	100.0%	100.0%

A portion of the European increase is due to the acquisition of *taskforce*; without *taskforce*, revenue in Europe increased 8.6% for the three months ended August 25, 2018 as compared to the three months ended August 26, 2017. The integration of Accretive operations into RGP s existing North American operations prevents an analysis of the contribution of former Accretive operations to the North American revenue increase.

Our financial results are subject to fluctuations in the exchange rates of foreign currencies in relation to the United States dollar (U.S. dollar). Revenues denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates in effect during each period. Thus, as the value of the U.S. dollar strengthens relative to the currencies of our non-United States based operations, our translated revenue (and expenses) will be lower; conversely, if the value of the U.S. dollar weakens relative to the currencies of our non-United States based operations, our translated revenue (and expenses) will be higher. Using the comparable fiscal 2018 first quarter conversion rates, international revenues would have been higher than reported under GAAP by approximately $0.2 million in the first quarter of fiscal 2019. Using these constant currency rates, which we believe provides a more comprehensive view of trends in our business, our revenue increased in North America, Europe and Asia Pacific by 26.3%, 35.8% and 16.1%, respectively.

The number of consultants on assignment as of August 25, 2018 was 3,176 compared to 2,495 consultants engaged as of August 26, 2017. The number of consultants on assignment as of August 25, 2018 includes 51 consultants from the *taskforce* acquisition; with the integration of Accretive into RGP daily operations we are unable to attribute the increase in headcount from the prior year quarter to that acquisition.

We operated 74 (26 abroad) offices as of August 25, 2018 and 67 (24 abroad) as of August 26, 2017. The change between the two years is the result of the addition of five offices acquired in the Accretive transaction, two offices acquired in the *taskforce* acquisition and the formal establishment of offices in Zurich, Switzerland and Guangzhou, China, offset by three office closures.

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

***Direct Cost of Services*.** Direct cost of services increased $22.9 million, or 26.2%, to $110.4 million for the three months ended August 25, 2018 from $87.5 million for the three months ended August 26, 2017. On a constant currency basis, direct cost of services increased 26.3%. Direct cost of services includes consultant costs of $2.9 million related to the *taskforce* acquisition. Excluding the impact of the *taskforce* acquisition, direct cost of services increased 22.9% between the periods. The primary reason for the increase is that average consultant pay rate per hour increased 5.0% (the same on a constant currency basis) and hours worked increased 23.5% between the two quarters.

Direct cost of services as a percentage of revenue was 61.8% and 62.0% for the three months ended August 25, 2018 and August 26, 2017, respectively. The direct cost of services as a percentage of revenue improved slightly in the current quarter primarily because an increase in the bill/pay ratio was offset by a reduction in claims in the Company s self-insured medical program as compared to the prior year.

Our target direct cost of services percentage is 60% in all of our markets.

Selling, General and Administrative Expenses. S, G & A as a percentage of revenue was 31.6% and 33.6% for the quarters ended August 25, 2018 and August 26, 2017, respectively. S, G & A increased to $56.4 million for the first quarter of fiscal 2019 from $47.4 million for the same period in the prior year for the following primary reasons: we added S, G & A tied to the operations of the Accretive acquisition (now largely integrated with the operations of RGP) and *taskforce* (which operates as a separate brand). More specifically, the year over year increase is primarily attributable to: 1) $6.6 million of additional payroll and benefit costs from *taskforce* personnel, legacy Accretive personnel and new headcount to support the growth of critical markets; 2) $2.6 million related to increased commission and bonus expenses tied to the revenue growth of the business; 3) $0.8 million of marketing costs associated with driving revenue growth and 4) increases of $1.3 million in rent, bad debt and other categories; these costs were offset by lower severance and acquisition costs of $2.3 million incurred in the prior year quarter.

Management and administrative headcount was 885 at the end of the first quarter of fiscal 2019 (including 17 from the *taskforce* acquisition) and 726 at the end of the first quarter of fiscal 2018.

Sequential Operations. On a sequential quarter basis, fiscal 2019 first quarter revenues decreased approximately 2.8% (2.0% constant currency), from $183.8 million to $178.6 million. We believe first quarter revenue declined primarily because of the Memorial Day and July 4th holidays in the U.S. and summer holiday breaks taken by our consultants. The impact of those holiday periods is reflected by 2.4% decrease in hours worked while average bill rates remained the same between the two quarters. The Company s sequential revenue decreased in North America (1.6%), Europe (11.8%) and Asia Pacific (1.0%). On a constant currency basis, using the comparable fourth quarter fiscal 2018 conversion rates, sequential revenue improved in Asia Pacific (2.3%) while decreasing in North America (1.5%) and Europe (7.4%).

Direct cost of services as a percentage of revenue was 61.8% and 61.7% in the first quarter of fiscal 2019 and fourth quarter of fiscal 2018, respectively; the higher direct cost of services percentage in the first quarter is primarily the result of an improved bill/pay ratio in the first quarter, offset by holiday pay for consultants for the Memorial Day and July 4th holidays in the U.S. (there were no paid holidays in the fourth quarter of fiscal 2018).

S, G & A as a percent of revenue was 31.6% for the first quarter of fiscal 2019 compared to 32.0% for the fourth quarter of fiscal 2018. Spend in the first quarter decreased $2.5 million to $56.4 million from $58.9 million in the previous quarter. The primary reasons for the change were: 1) we did not incur any severance expense in the first quarter of the current fiscal year, but incurred $0.8 million in the fourth quarter of fiscal 2018 and our acquisition and transformation expenses decreased from the fourth quarter by approximately $1.4 million offset by 2) increased marketing costs of $0.8 million associated with driving revenue growth offset by reductions in various categories.

Amortization and Depreciation Expense. Amortization of intangible assets was $1.0 million in the first quarter of fiscal 2019 as a result of amortization related to identifiable intangible assets acquired in the December 2017 acquisition of Accretive and September 2017 acquisition of *taskforce*. Those assets identified based upon the allocation of purchase price of Accretive include: $12.7 million for customer relationships (amortized over eight years) and $2.5 million for tradenames (amortized over three years); and for *taskforce*, $1.9 million for customer relationships (amortized over 3 years), $2.0 million for tradenames (amortized over 10 years), $0.8 million for the database of potential consultants (amortized over 3 years) and $1.0 million for non-competition agreements (amortized over 3 years). The Company had no amortization expense during the first quarter of fiscal 2018.

Depreciation expense was $1.1 million and $0.9 million in the first quarter of fiscal 2019 and 2018, respectively. The increase is primarily the result of depreciation on fixed assets acquired in the purchase of Accretive.

***Interest Expense*.** Interest expense for the first quarter of fiscal 2019 was approximately $0.6 million compared to $0.3 million in the same period of fiscal 2018. The increase in the 2019 first quarter is the result of interest on incremental borrowings of $15.0 million to finance a portion of the acquisition of Accretive and generally higher interest rates. As of August 25, 2018, the interest rates on the Company s borrowings were 3.7% on a tranche of $24.0 million (2-month London Interbank Offered Rate (LIBOR) plus 1.50%), 4.0% on a tranche of $19.0 million (6-month LIBOR plus 1.50%) and 4.0% on a tranche of $15.0 million (6-month LIBOR plus 1.5).

Income Taxes. On December 22, 2017, Congress enacted H.R.1, the Tax Cuts and Jobs Act (Tax Reform Act), which made significant changes to U.S. federal income tax laws including reducing the corporate rate from 35% to 21% effective January 1, 2018. In December 2017, the SEC issued Staff Accounting Bulletin No. 118 which allows the Company to record provisional amounts related to the impact of the Tax Reform Act and adjust those amounts during a measurement period not to extend more than one year from date of enactment. During fiscal 2018 the Company recorded a provisional income tax benefit of approximately $0.8 million upon re-measurement of U.S. deferred tax assets and liabilities at the rate the balances are expected to be realized. Also during fiscal 2018 the Company provided for $3.4 million of capital gains tax offset by $3.4 million of newly established deferred tax assets for foreign tax credits that resulted from dividend distributions. Both the capital gains tax and the newly established deferred tax assets were based upon a strict reading of the Internal Revenue Code at the time. Subsequently, the Treasury Department and the IRS released proposed regulations clarifying the relevant calculations and as a result, both the capital gains tax of $3.4 million and newly established deferred tax assets of $3.4 million were reversed during the three months ended August 25, 2018.

The Tax Reform Act also includes the Global Intangible Low-Tax Income (GILTI) provision, a new mechanism for taxing certain foreign profits, the Base Erosion Anti-Abuse Tax (BEAT), a minimum tax on payments to related parties, and the Foreign-Derived Intangible Income provision, a tax incentive to earn income abroad. The Company is permitted to make an accounting policy election to account for GILTI as either a period charge when the tax arises or as a part of deferred taxes. Due to the complexity of the GILTI provisions, the Company is still evaluating the impacts on future periods and has not yet elected an accounting policy regarding GILTI. The Company has recognized provisional tax impacts associated with GILTI as a current expense for the three months ending August 25, 2018.

The Company s provision for income taxes was $3.5 million (effective tax rate of approximately 38%) and $2.9 million (effective tax rate of approximately 58%) for the three months ended August 25, 2018 and August 26, 2017, respectively. The Company records tax expense based upon an actual effective tax rate versus a forecasted tax rate because of the volatility in its international operations that span numerous tax jurisdictions.

The provision for income taxes in the three months ended August 25, 2018 and August 26, 2017 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 provision for income taxes increased for the three months ended August 25, 2018 because of the improved global income. The effective tax rate decreased for the three months ended August 25, 2018, primarily due to the reduction in the U.S. statutory federal tax rate and due to the improved foreign results.

The Company recognized tax expense of approximately $0.1 million and tax benefit of approximately $0.4 million related to stock-based compensation for nonqualified stock options expensed and for disqualifying dispositions under the ESPP during the first quarter of fiscal 2019 and 2018, respectively.

Periodically, the Company reviews the components of both book and taxable income to analyze the adequacy of the tax provision. There can be no assurance that the Company s effective tax rate will remain constant in the future because of the 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 incentive stock options exercises.

Comparability of Quarterly Results. Our quarterly results have fluctuated in the past and we believe they will continue to do so in the future. Certain factors that could affect our quarterly operating results are described in Part II,

Item 1A. Risk Factors. Due to these and other factors, we believe quarter-to-quarter comparisons of our results of operations may not be meaningful indicators of future performance.

Liquidity and Capital Resources

Our primary source of liquidity is cash provided by our operations and ability to access our $120 million secured revolving credit facility (Facility) with Bank of America and, historically, to a lesser extent, stock option exercises and ESPP purchases. On an annual basis, we have generated positive cash flows from operations since inception, and we continued to do so for the year ended May 26, 2018. Our ability to generate positive cash flow from operations in the future will be, at least in part, dependent on continued stable global economic conditions. As of August 25, 2018, the Company had $27.1 million of cash and cash equivalents including $13.9 million held in international operations.

In October 2016, we entered into a $120 million Facility with Bank of America. The Facility is available for working capital and general corporate purposes, including potential acquisitions and stock repurchases. The Facility allows the Company to choose the interest rate applicable to advances. Borrowings under the Facility bear interest at a rate per annum of either, at the Company s option, (i) LIBOR plus a margin of 1.25% or 1.50% or (ii) an alternate base rate, plus margin of 0.25% or 0.50% with the applicable margin depending on the Company s consolidated leverage ratio. The alternate base rate is the highest of (i) Bank of America s prime rate, (ii) the federal funds rate plus 0.50% and (iii) the Eurodollar rate plus 1.0%. The Company pays an unused commitment fee on the average daily unused portion of the Facility at a rate of 0.15% to 0.25% depending upon on the Company s consolidated leverage ratio. The Facility expires October 17, 2021.

As of August 25, 2018, the Company had borrowings of approximately $58.0 million under the Facility and directed Bank of America to issue approximately $1.3 million of outstanding letters of credit for the benefit of third parties related to operating leases and guarantees. As of August 25, 2018 the Company was in compliance with the financial covenants in the Facility.

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

Operating Activities

Operating activities for the three months ended August 25, 2018 used cash of $16.6 million compared to $13.1 million for the three months ended August 26, 2017. Cash used in operations in the first three months of fiscal 2019 resulted from net income of $5.7 million and non-cash items of $8.0 million. These amounts were offset by net unfavorable changes in operating assets and liabilities of $30.3 million due primarily to the increase in the balance of accounts receivable as of the end of the first quarter of fiscal 2019 reflecting increasing revenue during August 2018, coinciding with settlement of payroll at the end of the quarter and the usual payment during the first quarter of the Company s obligation for incentive compensation. In the first three months of fiscal 2018, cash used in operations resulted from net income of $2.1 million and non-cash items of $2.6 million, partially offset by net unfavorable changes in operating assets and liabilities of $17.9 million. The primary driver of the change in cash provided by operations between the two periods was the increase in accounts receivable and amortization expense during fiscal 2019, offset by increased net income and to a lesser extent favorable changes in deferred income taxes. Non-cash items in both fiscal 2019 and fiscal 2018 include depreciation, amortization and stock-based compensation expense. These charges do not reflect an actual cash outflow from the Company.

Investing Activities

Net cash used in investing activities was $1.1 million for the first three months of fiscal 2019, compared to $0.4 million in the comparable prior year period. The use of cash increased in fiscal 2019 as compared to fiscal 2018 due to an increase in investments in property and equipment between the two periods.

Financing Activities

Net cash used in financing activities totaled $11.7 million for the three months ended August 25, 2018 compared to $0.5 million for the three months ended August 26, 2017. Net cash provided by financing activities for the three months ended August 25, 2018 included dividends paid on the Company s common stock of $3.8 million, approximately $0.5 million higher than in the comparable period of the prior year. The increase in dividend paid in the current quarter was caused by an increase in the Company s dividend accrual rate of $0.01 per common share in fiscal 2018 and a higher number of outstanding common shares after the *taskforce* and Accretive acquisitions. The

Company s board of directors declared a quarterly cash dividend of $0.13 per common share on July 26, 2018. The dividend of approximately $4.1 million, paid on September 16, 2018, is accrued in the Company s Consolidated Balance Sheet as of August 25, 2018.

The Company used $7.5 million to purchase approximately 468,000 shares of common stock on the open market during the first three months of fiscal 2019 at a price averaging $15.95 per common share. The Company did not purchase any shares of common stock on the open market in the prior year period. Proceeds from the exercise of employee stock options and issuance of shares via the ESPP were approximately $1.8 million higher in fiscal 2019 as compared to the comparable period of fiscal 2018. The Company also reduced its obligation on the Facility by $5.0 million during the first quarter of fiscal 2019; there was no payment on the Facility during the comparable prior year period.

As described in Note 3 to the financial statements *Acquisitions,* the purchase agreement for *taskforce* requires earn-out payments to be made. Under accounting rules for business combinations, obligations that are contingently payable to the sellers based upon the occurrence of one or more future events are recorded as a discounted liability on the Company s balance sheet. The Company is obligated to pay the sellers (in Euros) Adjusted EBITDA times 6.1 times 15% (Adjusted EBITDA as defined in the purchase agreement) for calendar years 2018 and 2019. The Company estimated the fair value of the obligation to pay contingent consideration based on a number of different projections of the estimated Adjusted EBITDA for each of the calendar years. The Company recorded this future obligation using a discount rate of approximately 11.0%, representing the Company s weighted average cost of capital. The estimated fair value of the contractual obligation to the contingent consideration as of August 25, 2018 is 3.9 million (approximately $4.5 million).

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is contained in Note 12 *Recent Accounting Pronouncements* in the Notes to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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

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

As of August 25, 2018, we had approximately $27.1 million of cash and cash equivalents and $58.0 million of borrowings under our Facility. The earnings on investments are subject to changes in interest rates; however, assuming a constant balance available for investment, a 10% decline in interest rates would reduce our interest income but would not have a material impact on our consolidated financial position or results of operations.

Borrowings under the Facility bear interest at a rate per annum of either, at the Company s option, (i) LIBOR plus a margin of 1.25% or 1.50% or (ii) an alternate base rate, plus margin of 0.25% or 0.50% with the applicable margin depending on the Company s consolidated leverage ratio. The alternate base rate is the highest of (i) Bank of America s prime rate, (ii) the federal funds rate plus 0.50% and (iii) the Eurodollar rate plus 1.0%. We are exposed to rate risk related to fluctuations in the LIBOR rate primarily; at the current level of borrowing as of August 25, 2018 of $58.0 million, a 10% change in interest rates would have resulted in approximately a $0.2 million change in annual interest expense.

Foreign Currency Exchange Rate Risk. For the three months ended August 25, 2018, approximately 21% of the Company s revenues were generated outside of the United States. As a result, our operating results are subject to fluctuations in the exchange rates of foreign currencies in relation to the U.S. dollar. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates prevailing during the period. Thus, as the value of the U.S. dollar fluctuates relative to the currencies in our non-United States based operations, our reported results may vary.

Assets and liabilities of our non-United States based operations are translated into U.S. dollars at the exchange rate effective at the end of each monthly reporting period. Approximately 49% of our balances of cash and cash equivalents as of August 25, 2018 were denominated in U.S. dollars. The remaining amount of approximately 51% was comprised primarily of cash balances translated from Euros, Mexican Pesos, Japanese Yen and Singapore Dollars. The difference resulting from the translation each period of assets and liabilities of our non-United States based operations is recorded as a component of stockholders equity in other accumulated other comprehensive income or loss.

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

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

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of August 25, 2018. 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 25,

2018. 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 25, 2018 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, although we are from time to time party to legal proceedings that arise in the ordinary course of our business.

ITEM 1A.*RISK FACTORS*.

There have been no material changes in our risk factors from those disclosed in Part 1, Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 26, 2018, which was filed with the Securities and Exchange Commission on July 23, 2018. For convenience, our updated risk factors are included below in this Item 1A. The order in which the risks appear is not intended as an indication of their relative weight or importance.

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

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

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

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

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

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

consulting firms

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

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- independent contractors
- traditional and Internet-based staffing firms
- the in-house or former in-house resources of our clients

We cannot assure you we will be able to compete effectively against existing or future competitors. Many of our competitors have significantly greater financial resources, greater revenues and greater name recognition, which may afford them an advantage in attracting and retaining clients and consultants and in offering pricing concessions. Some of our competitors in certain markets do not provide medical and other benefits to their consultants, thereby allowing them to potentially charge lower rates to clients. In addition, our competitors may be able to respond more quickly to changes in companies needs and developments in the professional services industry.

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

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

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

Many of our engagements with our clients involve projects or services critical to our clients businesses. If we fail to meet our contractual obligations, we could be subject to legal liability or damage to our reputation, which could adversely affect our business, operating results and financial condition. While we are not currently subject to any client-related legal claims which we believe are material, it remains possible, because of the nature of our business, we may be involved in litigation in the future that could materially affect our future financial results. Claims brought against us could have a serious negative effect on our reputation and on our business, financial condition and results of operations.

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

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

Historically, we have grown by opening new offices and by increasing the volume of services provided through existing offices. Beginning late in fiscal 2017, we embarked on several new strategic initiatives, including the implementation of a new operating model to drive growth. While the roll-out of that operating model is complete in the United States, the adoption internationally is on going. Our ability to execute on those strategies or the disruptions

related to implementation of the new operating model may impact or limit our ability to grow our business. There can be no assurance we will be able to maintain or expand our market presence in our current locations or to successfully enter other markets or locations. Our ability to continue to grow our business will depend upon an improving global economy and a number of factors, including our ability to:

- grow our client base
- expand profitably into new geographies
- provide additional professional services offerings
- hire qualified and experienced consultants
- maintain margins in the face of pricing pressures

- manage costs

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

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

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

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

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

- less flexible or future changes in labor laws and regulations in the U.S. and in foreign countries

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

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

- protectionist laws and business practices that favor local companies

- political and economic instability in some international markets

- multiple, conflicting and changing government laws and regulations

- trade barriers

- reduced protection for intellectual property rights in some countries

- 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, including two during the 2018 fiscal year, 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
- failure to identify certain risks or liabilities during the due diligence process
- potential impairment of relationships with our existing 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
- assumption of liabilities of the acquired company

Our failure to be successful in addressing these risks or other problems encountered in connection with our past or future acquisitions could cause us to fail to realize the anticipated benefits of such acquisitions, incur unanticipated liabilities and harm our business generally.

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

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

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

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

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

We have historically used stock options as a component of our employee compensation program in order to align employees interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. About 20% of our options outstanding as of the end of fiscal 2018, awarded prior to fiscal 2010, are priced at more than the current per share market value of our stock, limiting the grants from those years as a significant incentive to retain employees.

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

The management of our business is aided by the uninterrupted operation of our computer and telecommunication systems. These systems are vulnerable to security breaches, natural disasters or other catastrophic events, computer viruses, or other interruptions or damage stemming from power outages, equipment failure or unintended usage by employees. In particular, our employees may have access or exposure to personally identifiable or otherwise confidential information and customer data and systems, the misuse of which could result in legal liability. In addition, we rely on information technology systems to process, transmit and store electronic information and to communicate among our locations around the world and with our clients, partners and consultants. The breadth and

complexity of this infrastructure increases the potential risk of security breaches. Security breaches, including cyber-attacks or cyber-intrusions by computer hackers, foreign governments, cyber terrorists or others with grievances against the industry in which we operate or us in particular, may disable or damage the proper functioning of our networks and systems. It is possible our security controls over personal and other data may not prevent unauthorized access to, or destruction, loss, theft, misappropriation or release of personally identifiable or other proprietary, confidential, sensitive or valuable information of ours or others; this access could lead to potential unauthorized disclosure of confidential personal, Company or client information others could use to compete against us or for other disruptive, destructive or harmful purposes and outcomes. Any such disclosure or damage to our networks and systems could subject us to third party claims against us and reputational harm. If these events occur, our ability to attract new clients may be impaired or we may be subjected to damages or penalties. In addition, system-wide or local failures of these information technology systems could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

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

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

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

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

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

- our ability to attract new clients and retain current clients
- the mix of client projects
- the announcement or introduction of new services by us or any of our competitors
- the expansion of the professional services offered by us or any of our competitors into new locations both nationally and internationally
- changes in the demand for our services by our clients
- the entry of new competitors into any of our markets
- the number of consultants eligible for our offered benefits as the average length of employment with the Company increases

- the amount of vacation hours used by consultants or number of holidays in a quarter, particularly the day of the week on which they occur
- availability of consultants with the requisite skills in demand by clients
- changes in the pricing of our professional services or those of our competitors
- variation in foreign exchange rates from one quarter to the next used to translate the financial results of our international operations
- the amount and timing of operating costs and capital expenditures relating to management and expansion of our business
- the timing of acquisitions and related costs, such as compensation charges that fluctuate based on the market price of our common stock
- the periodic fourth quarter consisting of 14 weeks, which occurred during the fiscal year ended May 31, 2014 and next occurs during the fiscal year ending May 30, 2020

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

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

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

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

Although our management has determined, and our independent registered public accountant has attested, that our internal control over financial reporting was effective as of May 26, 2018, 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, energy and healthcare industries, we are subject to industry-specific regulations, including licensing and reporting requirements. Complying with these requirements is costly and, if we fail to comply, we could be prevented from rendering services to clients in those industries in the future. Additionally, changes in these requirements, or in other laws applicable to us, in the future could increase our costs of compliance.

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

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

Delaware corporate law and our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could delay, defer or prevent a change of control of the Company or our management. These

provisions could also discourage proxy contests and make it difficult for you and other stockholders to elect directors and take other corporate actions. As a result, these provisions could limit the price future investors are willing to pay for your shares. These provisions:

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

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

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

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- 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

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

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

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

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

We currently have a $120.0 million secured revolving credit facility which is available through October 21, 2021. We are subject to various operating covenants under the credit facility which restrict our ability to, among other things, incur liens, incur additional indebtedness, make certain restricted payments, merge or consolidate and make dispositions of assets. The credit facility also requires us to comply with financial covenants limiting our total funded

debt, minimum interest coverage ratio and maximum leverage ratio. Any failure to comply with these covenants may constitute a breach under the credit facility, which could result in the acceleration of all or a substantial portion of any outstanding indebtedness and termination of revolving credit commitments under the credit facility. Our inability to maintain our credit facility could materially and adversely affect our liquidity and our business.

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

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

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Failure to comply with data privacy laws and regulations could have a materially adverse effect on our reputation, results of operations or financial condition, or have other adverse consequences.

The collection, hosting, transfer, disclosure, use, storage and security of personal information required to provide our services is subject to federal, state and foreign data privacy laws. These laws, which are not uniform, do one or more of the following: regulate the collection, transfer (including in some cases, the transfer outside the country of collection), processing, storage, use and disclosure of personal information, require notice to individuals of privacy practices; give individuals certain access and correction rights with respect to their personal information; and prevent the use or disclosure of personal information for secondary purposes such as marketing. Under certain circumstances, some of these laws require us to provide notification to affected individuals, data protection authorities and/or other regulators in the event of a data breach. In many cases, these laws apply not only to third-party transactions, but also to transfers of information among the Company and its subsidiaries. In addition, the European Union adopted a comprehensive General Data Protection Regulation (the GDPR) in May 2016 that will replace the current EU Data Protection Directive and related country-specific legislation. The GDPR became fully effective in May 2018. Complying with the enhanced obligations imposed by the GDPR may result in additional costs to our business and require us to amend certain of our business practices. Further, enforcement actions and investigations by regulatory authorities related to data security incidents and privacy violations continue to increase. It is possible that future enactment of more restrictive laws, rules or regulations and/or future enforcement actions or investigations could have an adverse impact on us through increased costs or restrictions on our businesses and noncompliance could result in regulatory penalties and significant legal liability.

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

We believe establishing, maintaining and enhancing the RGP and Resources Global Professionals brand name is important to our business. We have applied for registration in the United States and some foreign jurisdictions with respect to certain service marks. We own United States trademark registrations for our RGP service mark and puzzle piece logo, Reg. No. 4,649.837; our RGP service mark, puzzle piece and tag line, Reg. No. 4,649.838; our RGP Healthcare service mark and puzzle piece logo, Reg. No. 4,649.839; our RGP Legal service mark and puzzle piece logo, Reg. No. 4,649.840; and our RGP Search service mark and puzzle piece logo, Reg. No. 4,649.841.

We also obtained a United States registration for the Resources Global Professionals mark, Registration No. 3,298,841 September 25, 2007, and this trademark registration was renewed in 2018. However, our rights to this service mark are not currently protected in some of our foreign registrations, and there is no guarantee any of our pending applications for such registration (or any appeals thereof or future applications) will be successful.

If another party adopts or uses a name, service mark or trademark similar to ours, they could make infringement claims against us or could thereby impede our ability to build brand identity if they have prior rights. We cannot assure you our business would not be adversely affected if such a claim was made or if we were required to change our name.

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

The following table provides information about purchases by the Company of its common stock during the three months ended August 25, 2018.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Announced Programs (1)	Approximate Dollar Value of Shares that May Yet be Purchased Under Announced Program
May 27, 2018 June 23, 2018		$		$ 119,987,423
June 24, 2018 July 21, 2018		$		$ 119,987,423
July 22, 2018 August 25, 2018	467,912	$ 15.95	467,912	$ 112,525,688
Total May 27, 2018 August 25, 2018	467,912	$ 15.95	467,912	$ 112,525,688

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

ITEM 6. ***EXHIBITS.***

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

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EXHIBIT INDEX

Exhibit Number	Description of Document
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.
** Furnished herewith.

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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 4, 2018	/s/ Kate W. Duchene Kate W. Duchene President and Chief Executive Officer (Principal Executive Officer)
Date: October 4, 2018	/s/ Herbert M. Mueller Herbert M. Mueller Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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