

RGIP

Resources Connection, Inc.

2019 Annual Report



Dear Fellow Shareholders,

I am pleased to report we delivered strong performance in fiscal year 2019. We successfully grew revenue and improved profitability, while also investing in brand, infrastructure and

innovation. This year, we struck a sound balance between immediate financial return and balanced longer-term investment. Before I turn to strategy and what's to come, let's review our year-end financial fundamentals.

We achieved 11.4% revenue growth this year by a combination of targeted efforts around improved sales leadership and discipline, pricing governance and aligned incentives. Given that Europe and Asia Pacific began their operational transformation efforts more recently, we have not felt the full effects yet. Continuing to improve the sales and delivery functions in all of our regions of operation will be a key priority in fiscal year 2020.

Our greatest achievement this year centers on improved profitability and cost containment. Global adjusted EBITDA increased by over 50% on a full year comparative basis, an increase largely accomplished through productivity gains and a commitment to disciplined hiring and tighter governance around discretionary spend. This fiscal year we remain focused on continuing to unlock operational leverage by doing "more with the same" and committed to prudent investment and cost containment across all three theaters of operations.

With the exception of our *taskforce* business, which grew nearly 46% year-over-year, we are not satisfied with our performance in Europe and will be taking concerted operational steps to improve results. These include: hiring a new head of Europe following the incumbent's retirement, hiring a new revenue leader for our Dutch business and working to reignite our German practice under new leadership. We look forward to updating you next year on the impact of these efforts.

For fiscal year 2020 and beyond, our core focus areas are threefold: (1) becoming a more digital business,

(2) infrastructure improvements and (3) brand development. We will also focus on optimizing our evolving seller-doer model.

Our digital innovation initiative is well underway. In June, we announced the formation of a new Digital Innovation function within RGP. This function will be focused on building and commercializing a digital engagement platform for RGP, enhancing our consulting capabilities in the digital transformation space and building and commercializing digital product offerings for both our clients and for RGP.

- Our digital engagement platform team is on track to deliver a Minimum Viable Product or MVP by the second half of fiscal year 2020. This human cloud platform is a digital marketplace where talent and business can connect and engage in a project arrangement. Our clients will be able to self-serve staff augmentation needs with greater transparency, speed and control. We also expect to attract new clients looking for a reliable digital staffing platform.
- With the announcement of our acquisition of Veracity Consulting Group, LLC ('Veracity') in late July, we made instant and meaningful traction on Digital Innovation's second priority - boosting our consulting capabilities around digital transformation. Veracity is a full-service digital transformation firm based in Richmond, Virginia, which delivers innovative solutions to the Fortune 500 and leading healthcare organizations. This combination is a powerful step in furthering our objective and allows RGP to offer comprehensive end-to-end solutions to its clients by combining Veracity's customer-facing offerings with our depth of experience in transforming the back office.
- The final immediate priority for our Digital Innovation team is to design and build digital products as part of our service offerings to automate front-office and back-office functions. These products are intended to create repeatable revenue streams and drive improved profitability. For instance, we are now in the process of commercializing a Robotic Process Automation tool to make the account reconciliation process more efficient.

Improving our technology infrastructure is another key element of our Strategic Plan. Most notably, we have kicked off the global extension of our Workday Global Human Capital Management platform and initiated planning for the replacement of our core financial, operational and talent systems, a project that is driven by our ongoing digital, financial and operational transformation.

Now, on to brand development - the launch of our refreshed brand this June (which included the launch of our new website at **rgp.com**) capped a six-month research project with a boutique brand consulting firm to discern the distinguishing quality embedded within RGP. We help clients everyday with projects and initiatives by putting the *right* people on the project team to drive execution. Like the Power of Hydrogen (pH), we have the unique ability to bind attracting elements together to deliver transformation. Our elements are our people. This is what we mean by our pH – the Power of Human. Our refreshed brand hits the mark and has the power to change perception, influence preference and command loyalty.

Finally, in late fiscal year 2019, we reorganized our Advisory and Project Services function, a team of partner-level seller-doer professionals whose primary responsibility is to shepherd sales pursuits and engagement delivery on our more complex projects. This team's main objective is to deepen the scoping conversation, achieve value-oriented pricing and improve delivery management through greater accountability and a more seamless customer experience. We also anticipate the seller-doer approach will help us plug in at an earlier stage of the client's project planning process.

We are very encouraged by these positive trends and are continuing to grow in sustainable ways. I am especially excited about the addition of Veracity to the RGP family and the world of opportunity digital innovation has the potential to unlock for us. In fiscal year 2020, we plan to build on our momentum, continue to execute with excellence and capture more of the opportunities created by our recent brand investment and extension into the digital transformation arena.

A final word on financial return for our shareholders:

During fiscal year 2019, we returned \$46 million to our shareholders in the form of dividends and stock buybacks. In July 2019, our Board authorized an 8% increase in the quarterly dividend to \$0.14 per share. This is the ninth consecutive year of increase in the dividend program.

In closing, thank you to our shareholders, clients and employees for the continued support. We are optimistic about the opportunities for further growth and improved financial return in the year to come.

Thank you.



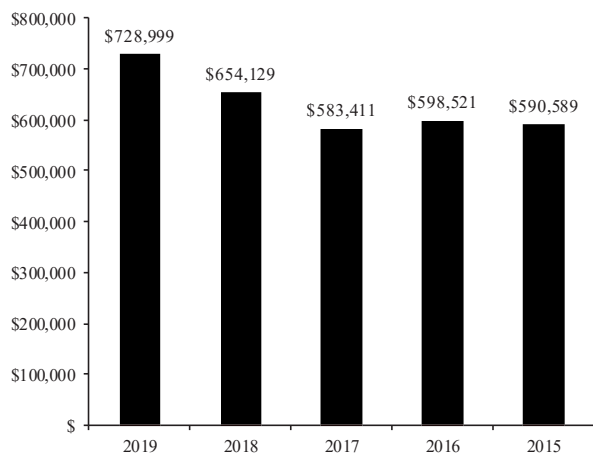
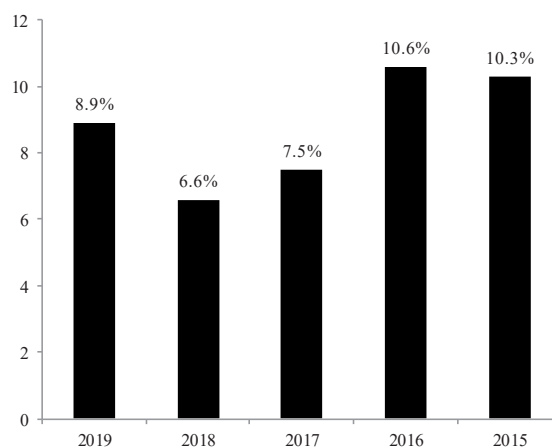
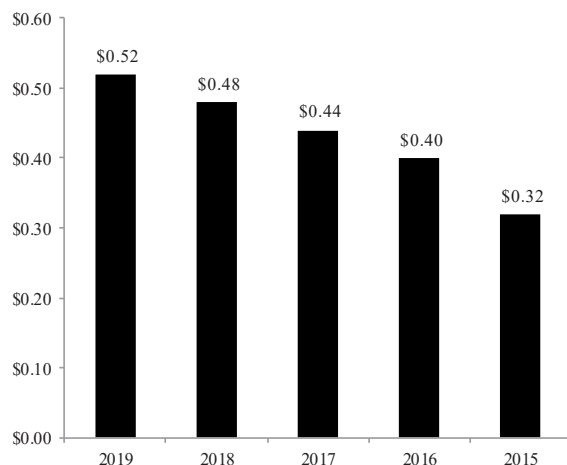
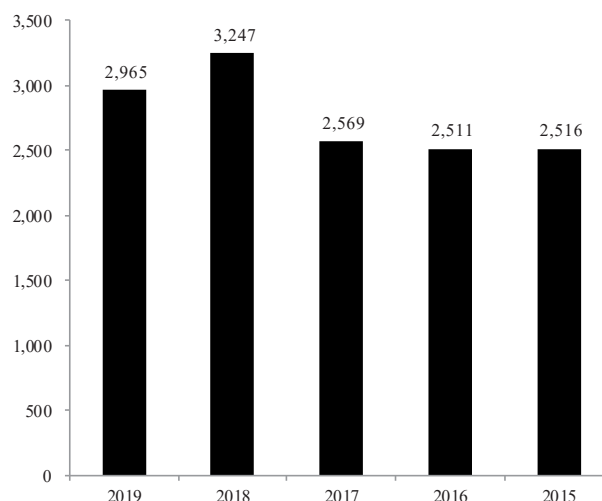
Kate W. Duchene
Chief Executive Officer

RESOURCES CONNECTION, INC.
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FINANCIAL HIGHLIGHTS

(In thousands, except per share data)	Years Ended	
	May 25, 2019	May 26, 2018
Financial Results:		
Revenue	\$ 728,999	\$ 654,129
Gross margin	\$ 282,439	\$ 246,055
Operating income	\$ 50,159	\$ 30,624
Net income	\$ 31,470	\$ 18,826
Net Income per common share - Diluted	\$ 0.98	\$ 0.60
Cash dividends declared per common share.....	\$ 0.52	\$ 0.48
	May 25, 2019	May 26, 2018
Balance Sheet Data:		
Cash, cash equivalents and short-term investments.....	\$ 49,026	\$ 56,470
Accounts receivable, net.....	\$ 133,304	\$ 130,452
Total assets.....	\$ 428,370	\$ 432,674
Stockholders' equity.....	\$ 282,396	\$ 268,825

Total Revenues**Adjusted EBITDA Margin (1)****Cash Dividends Declared per Common Share****Total Number of Consultants on Assignment at End of Period**

- (1) EBITDA is a key performance indicator we use to assess our financial and operating performance. We define Adjusted EBITDA as net income before amortization of intangible assets, depreciation expense, interest and income taxes plus stock-based compensation expense and plus or minus contingent consideration adjustments. Adjusted EBITDA is a non-GAAP financial measure. 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 generally accepted accounting principles ("GAAP") in the statement of operations; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measures so calculated and presented. Adjusted EBITDA Margin is calculated by dividing the Adjusted EBITDA by revenue. For further discussion of Adjusted EBITDA, see page 16.

SERVICES AND STRATEGY OF RESOURCES GLOBAL PROFESSIONALS

Resources Global Professionals ("RGP" or the "Company") is a global consulting firm that enables rapid business outcomes by bringing together the right people to create transformative change. As a human capital partner for our clients, we specialize in solving today's most pressing business problems across the enterprise in the areas of Business Transformation, Governance, Risk and Compliance and Technology and Digital Innovation. Our engagements are designed to leverage human connection and collaboration to deliver practical solutions and more impactful results that power our clients, consultants and partners' success.

RGP was founded in 1996 to help finance executives with operational needs and special projects created by workforce gaps. Our first-to-market, agile human capital model disrupted the professional services industry at a time when traditional talent models prevailed. Today's new ecosystem for work embraces our founding principle – quickly align the right resources for the work at hand with a premium placed on value, efficiency and ease of use.

Our pioneering approach to workforce strategy uniquely positions us to support our clients on their transformation journeys. With more than 3,800 professionals, we annually engage with over 2,400 clients around the world from more than 70 practice offices. We are their partner in delivering on the future of work. Headquartered in Irvine, California, RGP is proud to have served 86 of the Fortune 100.

Industry Background

Changing Market for Project- or Initiative-Based Professional Services

RGP's services respond to a growing marketplace trend: namely, corporate clients are increasingly choosing to plan for their workforce needs in more flexible ways. We believe the growing trend in the future of work will be project-based and not role based. Permanent headcount is being reduced as clients purposely engage agile talent for project initiatives and transformation work.

While the market for professional services is broad and fragmented and independent data on the size of the market is not readily available, we believe companies may be more willing to choose alternatives to permanent headcount and traditional professional service providers because of evolving economic competitive pressure and continuing compliance with increases in government-led regulatory requirements. We believe RGP is positioned as a viable alternative to traditional accounting, consulting and law firms in numerous instances because, by using project consultants, companies can:

- Strategically access specialized skills, expertise for projects of set duration
- Move quickly
- Blend independent and fresh points of view
- Effectively supplement internal resources
- Increase labor flexibility
- Reduce their overall hiring, training and termination costs

Typically, companies use a variety of alternatives to fill their project needs. Companies outsource entire projects to consulting firms, which provides them access to the expertise of the firm but often entails significant cost and less management control of the project. Companies also supplement their internal resources with employees from the Big Four accounting firms or other traditional professional services firms. Companies use temporary employees from traditional and Internet-based staffing firms, although these employees may be less experienced or less qualified than employees from professional services firms. Finally, some companies rely solely on their own employees who may lack the requisite time, experience or skills.

Supply of Project Consultants

Based on discussions with our consultants, we believe the number of professionals seeking to work on an agile basis has historically increased due to a desire for:

- More flexible hours and work arrangements, coupled with a professional culture that offers competitive wages and benefits
- The ability to learn and contribute in different environments
- Challenging engagements that advance their careers, develop their skills and add to their experience base
- A work environment that provides a diversity of, and more control over, client engagements
- Alternate employment opportunities in regions throughout the world

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

Resources Global Professionals' Solution

We believe RGP is positioned to capitalize on the confluence of the industry trends described above. We believe, based on discussions with our clients, that RGP provides the agility companies desire in today's competitive and quickly evolving environment. We are able to combine all of the following:

- A relationship-oriented and collaborative approach with our clients
- A professional dedicated talent acquisition and management team who excel at developing a project-based workforce
- Client service teams with Big Four, consulting and/or industry backgrounds to assess our clients' project needs and customize solutions to meet those needs
- Highly qualified consultants with the requisite expertise, experience and points of view
- Competitive rates on an hourly, rather than project, basis
- Significant client control of their projects with effective knowledge transfer and change management

Resources Global Professionals' Strategy

Our Business Strategy

We are dedicated to serving our clients with highly qualified and experienced talent in support of projects and initiatives in a broad array of functional areas, including:

Business strategy and transformation

- Program and project management
- Change management
- Transaction advisory
- Executive search
- Human resources
- Supply chain
- Legal

Finance and accounting

- Lease accounting
- Revenue recognition
- Financial operations
- Equity administration and accounting
- Tax

Risk and compliance

- Information security and privacy

Technology and digital.

- Business technology

- Internal audit and compliance
- Operational risk management
- Data analytics
- Robotics process automation

Our objective is to build RGP’s reputation as the premier provider of agile consulting services for companies facing transformation, change and compliance challenges. We have developed the following business strategies to achieve our objectives:

- *Hire and retain highly qualified, experienced consultants.* We believe our highly qualified, experienced consultants provide us with a distinct competitive advantage. Therefore, one of our priorities is to continue to attract and retain high-caliber consultants who are committed to solving problems. We believe we have been successful in attracting and retaining qualified professionals by providing challenging work assignments, competitive compensation and benefits, and continuing professional development and learning opportunities, while offering flexible work schedules and more control over choosing client engagements.

- *Maintain our distinctive culture.* Our corporate culture is the foundation of our business strategy and we believe it has been a significant component of our success. Our senior management, virtually all of whom are Big Four, management consulting and/or Fortune 500 alumni, has created a culture that combines the commitment to quality and the client service focus of a Big Four firm with the entrepreneurial energy of an innovative, high-growth company. Our culture continues to evolve to meet the new challenges facing consultants, clients and management and so our original acronym “TIEL” (talent, integrity, enthusiasm and loyalty), representing the traits expected of our people, has evolved. In today’s marketplace, we believe that focus and accountability are key traits that help to strengthen our team and support our ability to provide clients with high-quality services and solutions. Thus, our culture has evolved to “LIFE AT RGP”, representing Loyalty, Integrity, Focus, Enthusiasm, Accountability and Talent. We believe our culture has created a circle of quality; our culture is instrumental to our success in hiring and retaining highly qualified employees who, in turn, attract quality clients.

- *Build consultative relationships with clients.* We emphasize a relationship-oriented approach to business rather than a transaction-oriented or assignment-oriented approach. We believe the professional services experience of our management and consultants enables us to understand the needs of our clients and deliver an integrated, relationship-based approach to meeting those needs. Client relationships and needs are addressed from a client, not office, perspective. We regularly meet with our existing and prospective clients to understand their business issues and help them define their project needs. Once our revenue team helps define the client’s project needs, our talent team identifies consultants with the appropriate skills and experience to meet the client’s objectives. We believe that by establishing relationships with our clients to solve their professional service needs, we are more likely to identify new opportunities to serve them. The strength and depth of our client relationships is demonstrated by two key statistics: 1) during fiscal 2019, 46 of our 50 largest clients in terms of revenue engaged our consultants in more than one practice area and 40 of those largest 50 clients used three or more practice areas; and 2) 44 of our largest 50 clients in fiscal 2013 remained clients in fiscal 2019 while 38 of our largest 50 clients in 2008 were still clients in 2019.

- *Build the RGP brand.* Our objective is to build RGP’s reputation as the premier provider of agile consulting services for companies facing transformation, change and compliance challenges. We want to be the preferred provider in the future of work. Our primary means of building our brand is by consistently providing high-quality, value-added services to our clients. We have also focused on building a significant referral network through our 2,965 consultants and 931 management and administrative employees working from offices in 20 countries as of May 25, 2019. In addition, we have global, regional and local marketing efforts that reinforce the RGP brand.

Our Growth Strategy

Since inception, our growth has been primarily organic rather than via acquisition. We believe we have significant opportunity for continued organic growth in our core business and also to grow opportunistically through strategic acquisitions as the global economy strengthens and economic uncertainties decrease. In both our core and acquired businesses, key elements of our growth strategy include:

- *Expanding work from existing clients.* A principal component of our strategy is to secure additional work from the clients we have served. We believe, based on discussions with our clients, the amount of revenue we currently receive from many of our clients represents a relatively small percentage of the amount they spend on professional services, and, consistent with historic industry trends, they may continue to increase the amount they spend on these services as the global economy evolves. We believe that by continuing to deliver high-quality services and by further developing our relationships with our clients, we can capture a significantly larger share of our clients' expenditures for professional services. Near the end of fiscal 2017, we launched our Strategic Client Program to serve a number of our largest clients with dedicated global account teams. We believe this focus enhances our opportunity to develop in-depth knowledge of these clients' needs and the ability to increase the scope and size of projects with those clients.

- *Growing our client base.* We will continue to focus on attracting new clients. We strive to develop new client relationships primarily by leveraging the significant contact networks of our management and consultants and through referrals from existing clients. We believe we can continue to attract new clients by building our brand name and reputation, supplemented by our global, regional and local marketing efforts. We anticipate our growth efforts this year will focus on identifying strategic target accounts especially in the large and middle market client segments.

- *Expanding geographically.* We have expanded geographically to meet the demand for agile professional services around the world and currently have offices in 20 countries. We believe, based upon our clients' requests, there are future opportunities to promote growth globally. Consequently, we intend to continue to expand our international presence on a strategic and opportunistic basis. We may also add to our existing domestic office network when our existing clients have a need or if there is a significant new client opportunity.

- *Strategic acquisitions.* Since fiscal 2009, we grew organically, as we had not identified a target acquisition that fit one of our primary acquisition goals: either addressing an identified gap in our geographic presence or in our solution offerings. In fiscal 2018, we identified and acquired *-taskforce*, Management on Demand AG ("*taskforce*") and substantially all of the assets and assumption of certain liabilities of Accretive Solutions, Inc. ("*Accretive*"). The acquisitions of *taskforce* and Accretive satisfied the need to better penetrate the vibrant economic market in Germany and gaps in serving middle market companies in the United States, respectively, while also harmonizing well with RGP's culture.

- *Providing additional professional service offerings.* We will continue to develop and consider entry into new professional service offerings. Since our founding, we have diversified our professional service offerings from a primary focus on accounting and finance to other areas in which our clients have significant needs such as human capital; information management; governance, risk and compliance; supply chain management; legal and regulatory services; and corporate advisory, strategic communications and restructuring services. In fiscal 2017, we formed our Integrated Solutions group to identify project opportunities that we can market at an enterprise level with talent, tools and methodologies. This group commercializes projects into solution offerings. Currently, our solutions practice is focused on business technology, data analytics and robotic process automation. When evaluating new solutions offerings to market to current and prospective clients, we consider (among other things) cultural fit, growth potential, profitability, cross-marketing opportunities and competition.

Consultants

We believe an important component of our success has been our highly qualified and experienced consultants. As of May 25, 2019, we employed or contracted 2,965 consultants engaged with clients. Our consultants have professional experience in a wide range of industries and functional areas. We provide our consultants with challenging work assignments, competitive compensation and benefits, and continuing professional development and learning opportunities, while offering more choice concerning work schedules and more control over choosing client engagements.

Almost all of our consultants in the United States are employees of RGP. We typically pay each consultant an hourly rate for each consulting hour worked and for certain administrative time and overtime premiums, and offer benefits, including: paid time off and holidays; a discretionary bonus program; group medical and dental programs, each with an approximate 30-50% contribution by the consultant; a basic term life insurance program; a 401(k) retirement plan with a discretionary company

match; and professional development and career training. Typically, a consultant must work a threshold number of hours to be eligible for all of these benefits. In addition, we offer our consultants the ability to participate in the Company's Employee Stock Purchase Plan ("ESPP"), which enables them to purchase shares of the Company's stock at a discount. We intend to maintain competitive compensation and benefit programs. To a much lesser extent, we utilize a "bench model" for consultants with specialized in-demand skills and experience. These consultants are paid a weekly salary rather than for each consulting hour worked and have bonus eligibility based upon utilization.

Internationally, our consultants are a blend of employees and independent contractors. Independent contractor arrangements are more common abroad than in the United States due to the labor laws, tax regulations and customs of the international markets we serve. A few international practices also utilize the partial "bench model" described above.

Clients

We provide our services and solutions to a diverse client base in a broad range of industries. In fiscal 2019, we served over 2,400 clients from offices located in 20 countries. Our revenues are not concentrated with any particular client. No single customer accounted for more than 10% of revenue for the 2019, 2018 and 2017 fiscal years, and in fiscal 2019, our 10 largest clients accounted for approximately 15% of our revenues.

Operations

We generally provide our professional services to clients at a local level, with the oversight of our market vice presidents and consultation of our corporate management team. The vice presidents and client development directors in each market are responsible for initiating client relationships, ensuring client satisfaction throughout engagements, coordinating services for clients on a national and international platform and maintaining client relationships post-engagement. Throughout this process, the corporate management team and regional vice presidents are available to consult with the vice presidents with respect to client services. Market revenue leadership and their teams identify, develop and close new and existing client opportunities, often working in a coordinated effort with other markets on multi-national/multi-location proposals.

Market revenue leadership works closely with our regionalized talent management team, who are responsible for identifying, hiring and cultivating a sustainable relationship with seasoned professionals fitting the RGP profile of client needs. Our consultant recruiting efforts are regionally or nationally based, depending upon the skill set required; talent management handles both the identification and hiring of consultants specifically skilled to perform client projects as well as monitoring the satisfaction of consultants during and post-completion of assignments. Talent focuses on getting the right talent in the right place at the right time.

We believe a substantial portion of the buying decisions made by our clients are made on a local or regional basis and that our offices most often compete with other professional services providers on a local or regional basis. As the marketplace for professional services has evolved, we continue to believe our local market leaders are in the best position to understand the local and regional outsourced professional services market. However, the complexity of relationships with many of our multinational clients also dictates that in some circumstances a hybrid model, bringing the best of both locally driven relationships as well as global focus, is important for employee and client satisfaction.

For projects requiring intimate knowledge and thought leadership on particular client concerns, our integrated solutions group consists of individuals with requisite skills and tools to work with clients.

We believe our ability to deliver professional services successfully to clients is dependent on our leaders in the field working together as a collegial and collaborative team, often working jointly on client projects. To build a sense of team effort and increase camaraderie among our leaders, we have a program for field personnel that awards annual incentives based on specific agreed-to goals focused on the performance of the individual and potential reward tied to the performance of the Company. We also share across the Company the best and most effective practices of our highest achieving offices and use this as an introductory tool with new vice presidents and directors. New leadership also spend time in other markets, partnering with experienced sales and recruiting personnel to understand, among many skills, how best to serve current clients, expand our presence with prospects and identify and recruit highly qualified consultants. This allows the veteran leadership to share their success stories, foster the culture of the Company with new vice presidents and directors and review specific client and consultant development programs. We believe these team-based practices enable us to better serve clients who prefer a centrally organized service approach.

From our corporate headquarters in Irvine, California, we provide centralized administrative, marketing, finance, HR, IT, legal and real estate support. Our financial reporting is also centralized in our corporate service center. This center handles invoicing, accounts payable and collections, and administers HR services including employee compensation and benefits administration for North American offices. We also have a business support operations center in our Utrecht, Netherlands office to provide centralized finance, HR, IT, payroll and legal support to our European offices. We share our Salesforce software platform world-wide, providing a common database of identified opportunities, prospective new clients, and existing client proposals for additional projects. In addition, in North America, we have a corporate networked IT platform with centralized financial reporting capabilities and a front office client management system. These centralized functions minimize the administrative burdens on our office management and allow them to spend more time focused on client and consultant development.

Business Development

Our business development initiatives are composed of:

- local and global initiatives focused on existing clients and target companies
- national and international targeting efforts focused on multinational companies
- brand marketing activities
- national and local advertising and direct mail programs

Our business development efforts are driven by the networking and sales efforts of our management. While local senior management focus on market-related activities, they are also part of the regional, national and international sales efforts, especially when the client is part of a multinational entity. In certain markets, sales efforts are also enhanced by management professionals focused solely on business development efforts on a market and national basis based on firm-wide and industry-focused initiatives. These business development professionals, teamed with the vice-presidents and client service teams, are responsible for initiating and fostering relationships with the senior management and decision makers of our targeted client companies. During fiscal 2018, we completed our implementation of software from Salesforce.com on a world-wide basis, to serve as a tool to enhance our local and worldwide business development efforts.

We believe our national marketing efforts have been effective in generating incremental revenues from existing clients and developing new client relationships. Our brand marketing initiatives help develop RGP's image in the markets we serve. Our brand is reinforced by our professionally designed website, print, and online advertising, direct marketing, seminars, initiative-oriented brochures, social media and public relations efforts. We believe our branding initiatives, coupled with our high-quality client service, help to differentiate us from our competitors and to establish RGP as a credible and reputable global professional services firm.

Competition

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

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

We compete for clients on the basis of the quality of professionals, the knowledge base they possess, the timely availability of professionals with requisite skills, the scope and price of services, and the geographic reach of services. We believe our attractive value proposition, consisting of our highly qualified consultants, relationship-oriented approach and professional culture, enables us to differentiate ourselves from our competitors. Although we believe we compete favorably

with our competitors, many of our competitors have significantly greater financial resources, generate greater revenues and have greater name recognition than we do.

Employees

As of May 25, 2019, we had 3,896 employees, including 931 management and administrative employees and 2,965 consultants. Our employees are not covered by any collective bargaining agreements.

Price Range of Common Stock

Our common stock has traded on the Nasdaq Global Select Market under the symbol “RECN” since December 15, 2000. As of July 8, 2019, the last reported sales price on Nasdaq of the Company’s common stock was \$15.88 per share and the approximate number of holders of record of our common stock was 48 (a holder of record is the name of an individual or entity that an issuer carries in its records as the registered holder (not necessarily the beneficial owner) of the issuer’s securities).

Dividend Policy

Our board of directors has established a quarterly dividend, subject to quarterly board of directors’ approval. Pursuant to declaration and approval by our board of directors, we declared a dividend of \$0.13 per share of common stock during each quarter in fiscal 2019 and \$0.12 per share of common stock during each quarter in fiscal 2018. On April 18, 2019, our board of directors declared a regular quarterly dividend of \$0.13 per share of our common stock. The dividend was paid on June 13, 2019 to stockholders of record at the close of business on May 16, 2019. Continuation of the quarterly dividend will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, capital requirements, general business condition, contractual restrictions contained in our current or future credit agreements and other agreements, and other factors deemed relevant by our board of directors.

Purchases of Equity Securities

In July 2015, our board of directors approved a stock repurchase program (the “July 2015 program”), authorizing the purchase, at the discretion of our senior executives, of our common stock for an aggregate dollar limit not to exceed \$150.0 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.

The following summarizes shares of common stock repurchased by the Company during the fourth quarter of fiscal 2019:

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
February 24, 2019— March 23, 2019	-	\$ -	-	\$ 97,736,690
March 24, 2019 — April 20, 2019	352,629	\$ 15.70	352,629	\$ 92,199,776
April 21, 2019 — May 25, 2019	131,034	\$ 16.05	131,034	\$ 90,096,548
Total February 24, 2019 — May 25, 2019	<u>483,663</u>	\$ 15.80	<u>483,663</u>	\$ 90,096,548

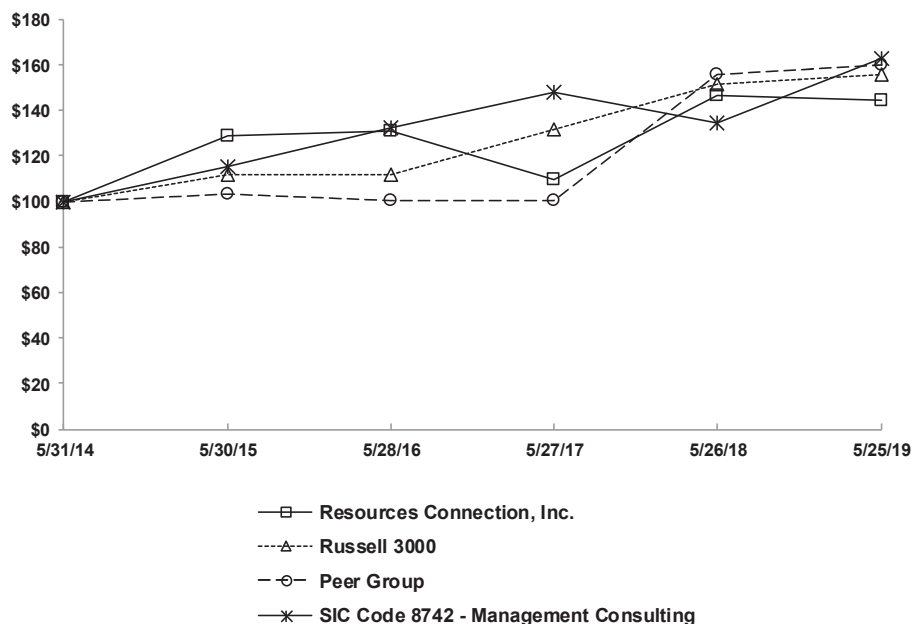
Performance Graph

Set forth below is a line graph comparing the annual percentage change in the cumulative total return to the holders of our common stock with the cumulative total return of the Russell 3000 Index, a customized peer group consisting of nine companies listed below the following table and a combined classification of companies under Standard Industry Codes as 8742- Management Consulting Services for the five years ended May 25, 2019. The graph assumes \$100 was invested on May 30, 2014 in our common stock and in each index (based on prices from the close of trading on May 30, 2014), and that all dividends are reinvested. Stockholder returns over the indicated period may not be indicative of future stockholder returns.

The information contained in the performance graph shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference into such filing.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Resources Connection, Inc., the Russell 3000 Index,
SIC Code 8742 - Management Consulting and Peer Group



*\$100 invested on 5/31/14 in stock or index, including reinvestment of dividends.
Index calculated on month-end basis.

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	For the Fiscal Years Ended						
	May 30, 2014	May 30, 2015	May 28, 2016	May 27, 2017	May 26, 2018	May 25, 2019	
Resources Connection, Inc.	\$ 100.00	\$ 129.08	\$ 130.89	\$ 109.89	\$ 146.79	\$ 144.26	
Russell 3000	\$ 100.00	\$ 111.86	\$ 112.11	\$ 131.94	\$ 151.81	\$ 155.60	
SIC Code 8742 - Management Consulting	\$ 100.00	\$ 103.29	\$ 100.62	\$ 100.07	\$ 156.02	\$ 159.93	
Peer Group	\$ 100.00	\$ 115.28	\$ 132.42	\$ 148.04	\$ 134.27	\$ 163.02	

The Company’s customized peer group includes the following nine professional services companies that we believe reflect the competitive landscape in which the Company operates and acquires talent: CRA International, Inc.; FTI Consulting, Inc.; Heidrick & Struggles International, Inc.; Hudson Global, Inc.; Huron Consulting Group Inc.; ICF International, Inc.; Kforce, Inc.; Korn/Ferry International; and Navigant Consulting, Inc. The Advisory Board Company is no longer included in

the Company's customized peer group due to acquisition by OptumInsight, Inc. in November 2017. The Company's compensation committee, a committee of our board of directors comprised of independent directors, reviews the composition of the peer group annually to ensure its alignment with the Company's size, practice areas, business model delivery and geographic reach.

SELECTED FINANCIAL DATA

You should read the following selected historical consolidated financial data in conjunction with our Consolidated Financial Statements and related notes in Part II, Item 8. *Financial Statements and Supplementary Data* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* in Part I, Item 7 of this Annual Report. The Consolidated Statements of Operations data for the years ended May 28, 2016 and May 30, 2015 and the Consolidated Balance Sheet data at May 27, 2017, May 28, 2016, and May 30, 2015 were derived from our audited Consolidated Financial Statements that are not included in this Annual Report. The Consolidated Statements of Operations data for the years ended May 25, 2019, May 26, 2018 and May 27, 2017 and the Consolidated Balance Sheet data at May 25, 2019 and May 26, 2018 were derived from our audited Consolidated Financial Statements that are included elsewhere in this Annual Report. Historical results are not necessarily indicative of results that may be expected for any future periods. All years presented consisted of 52 weeks.

	Years Ended				
	May 25, 2019	May 26, 2018 (1)	May 27, 2017	May 28, 2016	May 30, 2015
	(In thousands, except per common share and other data)				
Revenue	\$ 728,999	\$ 654,129	\$ 583,411	\$ 598,521	\$ 590,589
Income from operations	\$ 50,159	\$ 30,624	\$ 34,402	\$ 53,803	\$ 50,258
Net income	\$ 31,470	\$ 18,826	\$ 18,651	\$ 30,443	\$ 27,508
Net income per common share:					
Basic	\$ 1.00	\$ 0.61	\$ 0.57	\$ 0.82	\$ 0.73
Diluted	\$ 0.98	\$ 0.60	\$ 0.56	\$ 0.81	\$ 0.72
Weighted average common shares outstanding:					
Basic	31,596	30,741	32,851	37,037	37,825
Diluted	32,207	31,210	33,471	37,608	38,248
Cash dividends declared per common share	\$ 0.52	\$ 0.48	\$ 0.44	\$ 0.40	\$ 0.32
Other Data:					
Number of offices open at end of year	73	74	67	68	68
Number of consultants on assignment at end of year	2,965	3,247	2,569	2,511	2,516
Cash dividends paid	\$ 16,158	\$ 14,269	\$ 14,157	\$ 14,085	\$ 11,748

	May 25, 2019	May 26, 2018	May 27, 2017	May 28, 2016	May 30, 2015
	(Amounts in thousands)				
Total assets	\$ 428,370	\$ 432,674	\$ 364,128	\$ 417,255	\$ 416,981
Long-term debt	\$ 43,000	\$ 63,000	\$ 48,000	\$ -	\$ -
Stockholders' equity	\$ 282,396	\$ 268,825	\$ 238,142	\$ 342,649	\$ 340,452

- (1) See Note 3 – *Acquisitions* in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report for discussions on the Company's acquisitions of *taskforce* and *Accretive* during fiscal 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in Part I Item 1A. "Risk Factors." in our Annual Report on Form 10-K for the year ended May 25, 2019 and elsewhere in this Annual Report.

Overview

RGP is a global consulting firm that enables rapid business outcomes by bringing together the right people to create transformative change. As a human capital partner for our clients, we specialize in solving today's most pressing business problems across the enterprise in the areas of Business Transformation, Governance, Risk and Compliance and Technology and Digital Innovation. Our engagements are designed to leverage human connection and collaboration to deliver practical solutions and more impactful results that power our clients, consultants and partners' success. See Part I Item 1. "Business" for further discussions about the Company's business and operations.

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 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 global operations.

The second initiative redesigned 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 – Business Strategy and Transformation, Finance and Accounting, and Technology and Digital. 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. While we believe this effort has already delivered improved revenue growth and improved customer experience into fiscal 2019, we are focused on continued improvement from this initiative. The Company completed the redesigned operating model in Europe and Asia Pacific during the third quarter of fiscal 2019.

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. S, G & A as a percentage of revenue decreased to 30.7% during fiscal 2019 as compared to 32.0% and 31.4% in fiscal years 2018 and 2017, respectively.

Critical Accounting Policies

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

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.

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.

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 result. If the ultimate tax liability differs from the amount of tax expense we have reflected in the Consolidated Statements of Operations, an adjustment of tax expense may need to be recorded and this adjustment may materially affect the Company's future financial results and financial condition.

Revenue recognition — 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 Accounting Standards Codification ("ASC") Topic 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.

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 ESPP, eligible officers and employees may purchase our common stock in accordance with the terms of the plan.

The Company estimates the fair value of share-based payment awards on the date of grant using an option-pricing model. The Company determines the estimated value of restricted stock awards using the closing price of our common stock on the date of grant. We have elected to use the Black-Scholes option-pricing model for our stock options and stock-based awards issued under our ESPP 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 are 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 and ESPP 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 for each quarter during fiscal 2019 and \$0.12 per share for each quarter of fiscal 2018) is also incorporated in determining the estimated value per share of employee stock option grants and ESPP. 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-and 8.3 years for officers and expected life of ESPP is 6 months. The Company reviews the underlying assumptions related to stock-based compensation at least annually or more frequently if the Company believes triggering events exist.

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 intangible 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.

Business Combinations — We allocate the fair value of the purchase consideration of our acquisitions to the tangible assets, liabilities, and intangible assets acquired based on their estimated fair values. Purchase price allocations for business acquisitions require significant judgments, particularly with regards to the determination of value of identifiable assets, liabilities, and goodwill. Often third-party specialists are used to assist in valuations requiring complex estimation. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Purchase agreements related to certain business acquisitions may include provisions for the payment of additional cash consideration if certain future performance conditions are met. These contingent consideration arrangements are recognized at their acquisition date fair value and included as part of the purchase price at the acquisition date. The estimated fair value of these contingent consideration arrangements are classified as accrued liabilities or other long-term liabilities on our Consolidated Balance Sheets. The fair value is remeasured each reporting period with any change in fair value being recognized in the applicable period's results of operations. Measuring the fair value of contingent consideration at the acquisition date, and for all subsequent remeasurement periods, requires a careful examination of the facts and circumstances to determine the probable resolution of the contingency(ies). The estimated fair value of the contingent consideration is based primarily on our estimates of meeting the applicable contingency conditions as per the terms of the applicable agreements. These include estimates of various operating performance and other measures and our assessment of the probability of meeting such results, with the probability-weighted earn-out then discounted to estimate fair value.

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.

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

	For the Years Ended					
	May 25, 2019		May 26, 2018		May 27, 2017	
	(Amounts in thousands, except percentages)					
Revenue	\$ 728,999	100.0 %	\$ 654,129	100.0 %	\$ 583,411	100.0 %
Direct cost of services	446,560	61.3	408,074	62.4	362,086	62.1
Gross margin	282,439	38.7	246,055	37.6	221,325	37.9
Selling, general and administrative expenses	223,802	30.7	209,042	32.0	183,471	31.4
Amortization of intangible assets	3,799	0.5	2,298	0.4	-	-
Depreciation expense	4,679	0.6	4,091	0.6	3,452	0.6
Income from operations	50,159	6.9	30,624	4.6	34,402	5.9
Interest expense	2,190	0.3	1,735	0.3	629	0.1
Income before provision for income taxes	47,969	6.6	28,889	4.3	33,773	5.8
Provision for income taxes	16,499	2.3	10,063	1.5	15,122	2.6
Net income	\$ 31,470	4.3 %	\$ 18,826	2.8 %	\$ 18,651	3.2 %

We also assess the results of our operations using Adjusted EBITDA and Adjusted EBITDA Margin. We define Adjusted EBITDA as net income before amortization of intangible assets, depreciation expense, interest and income taxes plus stock-based compensation expense and 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. The following table presents 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:

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
	(Amounts in thousands, except percentages)		
Net income	\$ 31,470	\$ 18,826	\$ 18,651
Adjustments:			
Amortization of intangible assets	3,799	2,298	-
Depreciation expense	4,679	4,091	3,452
Interest expense	2,190	1,735	629
Provision for income taxes	16,499	10,063	15,122
Stock-based compensation expense	6,570	6,033	6,068
Contingent consideration adjustment	(590)	-	-
Adjusted EBITDA	\$ 64,617	\$ 43,046	\$ 43,922
Revenue	\$ 728,999	\$ 654,129	\$ 583,411
Adjusted EBITDA Margin	8.9 %	6.6 %	7.5 %

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 Statement of Operations; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measure so calculated and presented.

Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures. We believe Adjusted EBITDA and Adjusted EBITDA Margin provide useful information to our investors because they are financial measures used by

management to assess the core performance of the Company. 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, 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 Adjusted EBITDA do not reflect any cash requirements for such replacements;
- Equity based compensation is an element of our long-term incentive compensation program, although we exclude it as an expense from Adjusted EBITDA when evaluating our ongoing operating performance for a particular period;
- We exclude the changes in the fair value of the contingent consideration obligation related to a business acquisition from Adjusted EBITDA; and
- Other companies in our industry may calculate Adjusted EBITDA and Adjusted EBITDA Margin differently than we do, limiting their usefulness as a comparative measure.

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

Year Ended May 25, 2019 Compared to Year Ended May 26, 2018

Amounts are in millions unless otherwise stated. Percentage change computations are based upon amounts in thousands.

Revenue. Revenue increased \$74.9 million, or 11.5%, to \$729.0 million for the year ended May 25, 2019 from \$654.1 million for the year ended May 26, 2018. The increase in revenue is primarily attributable to the full year impact of our acquisitions of Accretive and *taskforce*, which were completed during the third and second quarter of fiscal 2018, respectively. In addition, bill rates improved 0.8% and hours worked increased 10.7% between the two periods; a portion of the increase in hours worked is due to the Accretive and *taskforce* acquisitions. Revenue and hours worked resulting from both acquisitions are not possible to isolate due to the completion of the integration of Accretive operations into RGP at the beginning of the first quarter of 2019.

We believe the improvement in revenue for the current period compared to the prior year period is in part the product of the operational changes made throughout fiscal 2018 and into fiscal 2019, including the use of Salesforce.com as a tool to directly measure individual productivity and structuring reporting lines with a function and client focus. In addition, we believe a portion of the revenue growth is attributable to client service and technical teams spending more time interacting with clients and prospects, improved alignment of our incentive systems to sales growth and an increase in sales efforts delivered by a focused business development team.

Revenue for the Company's major geographies across the globe consisted of the following (dollars in thousands):

	Revenue for the						% Change
	Years Ended			Years Ended			
	May 25, 2019		May 26, 2018				
		% of Total		% of Total			
North America	\$ 593,799	81.5 %	\$ 524,872	80.3 %			13.1 %
Europe	86,355	11.8	84,705	12.9			1.9 %
Asia Pacific	48,845	6.7	44,552	6.8			9.6 %
Total	\$ 728,999	100.0 %	\$ 654,129	100.0 %			11.4 %

Our financial results are subject to fluctuations in the exchange rates of foreign currencies in relation to the United States dollar. Revenues denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rates in effect during each period. Thus, as the value of the United States 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 operations, our translated revenue (and expenses) will be higher. Using the comparable fiscal 2018 conversion rates, international revenues would have been higher than reported under GAAP by \$5.9 million for the year ended May 25, 2019. Using these constant currency rates, which we believe provides a more comprehensive view of trends in our business, our revenue increased by 12.4% overall and by 13.3%, 6.4% and 12.7% in North America, Europe and Asia Pacific, respectively. Average bill rates increased 1.6% on a constant currency basis in fiscal 2019.

The number of consultants on assignment at the end of fiscal 2019 was 2,965 compared to 3,247 at the end of fiscal 2018.

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

On a sequential quarter basis, fiscal 2019 fourth quarter revenue increased \$2.6 million, or 1.5%, to \$182.1 million from \$179.5 million. The slight increase in fourth quarter revenue was partially because there are no significant compensated holidays in the quarter as compared to the third quarter which included the Christmas, New Year's and Chinese New Year's holidays. The remaining increase is attributable primarily to increases in non-hourly revenue. Total hours worked increased 0.9% while average bill rates remained the same between the third and fourth quarter. The Company's sequential revenue

increased in North America (0.1%), Asia Pacific (15.2%) and Europe (3.3%). On a constant currency basis, using the comparable third quarter fiscal 2019 conversion rates, sequential revenue increased in North America (0.1%), Asia Pacific (15.0%) and Europe (4.0%).

Direct Cost of Services. Direct cost of services increased \$38.5 million, or 9.4%, to \$446.6 million for the year ended May 25, 2019 from \$408.1 million for the year ended May 26, 2018. The primary reason for the change is an increase in hours worked of 10.7% between the two periods (partially attributable to the Accretive and *taskforce* acquisitions), while the average consultant pay rates per hour remained consistent in both periods.

Direct cost of services as a percentage of revenue was 61.3% and 62.4% for the during fiscal 2019 and 2018, respectively. The direct cost of services as a percentage of revenue improved in the current period primarily because of improvement in the bill/pay ratio and a reduction in cost of the Company's self-insured medical program as compared to the prior year.

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

On a sequential quarter basis, the direct cost of services percentage improved to 59.9% in the fourth quarter of fiscal 2019 from 62.2% in the third quarter of fiscal 2019. This improvement is primarily attributable improved bill pay ratio, driven by internal initiatives to improve pricing, and an improvement in the cost of the Company's self-insured medical coverage of consultants.

Selling, General and Administrative Expenses. S, G & A increased \$14.8 million, or 7.1%, to \$223.8 million for the year ended May 25, 2019 from \$209.0 million for the year ended May 26, 2018 and a decreased as a percentage of revenue to 30.7% in fiscal 2019 from 32.0% in fiscal 2018. The increase in SG&A is primarily due to the following: (1) \$12.9 million of additional payroll and benefit costs from *taskforce* and Accretive personnel and new headcount to support the growth of critical markets, including approximately \$0.5 million of compensation benefits related to the loan forgiveness of our recently appointed Chief Operating Officer ("COO"); (2) \$5.5 million related to increased commission and bonus expenses tied to the revenue growth of the business; (3) \$1.8 million of marketing costs associated with driving revenue growth; and (4) increases of \$1.8 million in rent, stock-based compensation expense, bad debt and other categories. These costs were partially offset by lower acquisition, severance and integration costs of \$7.2 million incurred in the comparable prior period.

On a sequential quarter basis, S, G & A as a percentage of revenue was 31.2% and 31.0% for the fourth and third quarters of fiscal 2019, respectively. S, G & A in the fourth quarter increased \$1.3 million to \$56.9 million from \$55.6 million in the previous quarter. The primary reasons for the change were: (1) \$0.8 million of additional payroll and benefit costs from new headcount to support the growth of critical markets, including approximately \$0.5 million of compensation benefits related to the loan forgiveness of our recently appointed COO; (2) \$0.6 million related to increased severance, acquisition and integration costs; and (3) \$0.4 million related to increased commission and bonus expenses tied to the revenue growth of the business. These costs were partially offset by lower marketing and legal costs of \$0.5 million.

Amortization and Depreciation Expense. Amortization of intangible assets was \$3.8 million in fiscal 2019 compared to \$2.3 million in fiscal 2018. The increase is primarily due to the full year impact of amortization related to identifiable intangible assets acquired in the December 4, 2017 acquisition of Accretive and the September 1, 2017 acquisition of *taskforce*.

Depreciation expense was \$4.7 million and \$4.1 million in fiscal 2019 and 2018, respectively. The increase is primarily the result of depreciation on fixed assets acquired in the acquisition of Accretive.

Interest Expense. Total interest expense for fiscal 2019, including commitment fees, was approximately \$2.5 million compared to \$1.9 million in fiscal 2019. The increase in the 2019 period is the result of interest on incremental borrowings of \$15.0 million in fiscal 2018 to finance a portion of the acquisition of Accretive and generally higher interest rates in fiscal 2019. Interest income was approximately \$0.3 million and \$0.1 million in fiscal 2019 and 2018, respectively.

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 ("SAB 118") which allowed the Company to record provisional amounts related to the expected 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. The Company completed its accounting for the impact of Tax Reform Act during fiscal 2019.

The Tax Reform Act also included the Global Intangible Low-Tax Income (“GILTI”) provision, a new mechanism for taxing certain foreign profits, the Base Erosion Anti-Abuse Tax, a minimum tax on payments to related parties, and the Foreign-Derived Intangible Income provision, a tax incentive to earn income abroad. The Company was 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. The Company determined to account for GILTI as a period cost and has recognized the tax impacts associated with GILTI as a current expense for fiscal 2019.

The provision for income taxes increased to \$16.5 million (effective rate of approximately 34%) for the year ended May 25, 2019 from \$10.1 million (effective rate of approximately 35%) for the year ended May 26, 2018. The provision for income taxes increased due to improved global income. The reduction in the U.S. statutory federal tax rate contributed to the lower effective tax rate.

The provision for taxes in both fiscal 2019 and fiscal 2018 resulted from taxes on income from operations in the United States and certain other foreign jurisdictions, a lower benefit for losses in certain foreign jurisdictions with tax rates lower than the United States statutory rates, and no benefit for losses in jurisdictions in which a valuation allowance on operating loss carryforwards had previously been established. Based upon current economic circumstances, management will continue to monitor the need to record additional or release existing valuation allowances in the future, primarily related to certain foreign jurisdictions. Realization of the currently reserved foreign deferred tax assets is dependent upon generating sufficient future taxable income in those foreign territories.

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 (“ISO”) exercises.

The Company cannot recognize a tax benefit for certain ISO grants unless and until the holder exercises his or her option and then sells the shares within a certain period of time. In addition, the Company can only recognize a potential tax benefit for employees’ acquisition and subsequent sale of shares purchased through the ESPP if the sale occurs within a certain defined period. As a result, the Company’s provision for income taxes is likely to fluctuate from these factors for the foreseeable future. The Company recognized a benefit of approximately \$31,000 and \$0.3 million related to stock-based compensation for nonqualified stock options expensed and for eligible disqualifying ISO exercises during fiscal 2019 and 2018, respectively. The proportion of expense related to non-qualified stock option grants (for which the Company may recognize a tax benefit in the same quarter as the related compensation expense in most instances) is significant as compared to expense related to ISOs (including ESPPs). However, the timing and amount of eligible disqualifying ISO exercises cannot be predicted. The Company predominantly grants nonqualified stock options to employees in the United States.

The Company has maintained a position of being indefinitely reinvested in its foreign subsidiaries’ earnings by not expecting to remit foreign earnings in the foreseeable future. Being indefinitely reinvested does not require a deferred tax liability to be recognized on the foreign earnings. Management’s indefinite reinvestment position is supported by:

- RGP in the United States has generated more than enough cash to fund operations and expansion, including acquisitions. RGP uses its excess cash to, at its discretion, return cash to shareholders through dividend payments and stock repurchases.
- RGP in the United States has no debt or any other current or known obligations that require cash to be remitted from foreign subsidiaries.
- Management’s growth objectives include allowing cash to accumulate in RGP’s profitable foreign subsidiaries with the expectation of finding strategic expansion plans to further penetrate RGP’s most successful locations.
- The consequences of distributing foreign earnings have historically been deemed to be tax inefficient for RGP or not materially beneficial.

Year Ended May 26, 2018 Compared to Year Ended May 27, 2017

For a comparison of our results of operations for the fiscal years ended May 26, 2018 and May 27, 2017, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended May 26, 2018, filed with the SEC on July 23, 2018 (File No. 0-32113).

Quarterly Results

The following table sets forth our unaudited quarterly Consolidated Statements of Operations data for each of the eight quarters in the two-year period ended May 25, 2019. In the opinion of management, this data has been prepared on a basis substantially consistent with our audited Consolidated Financial Statements appearing elsewhere in this document, and includes all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the data. The quarterly data should be read together with our Consolidated Financial Statements and related notes appearing elsewhere in this document. The operating results are not necessarily indicative of the results to be expected in any future period.

	Quarters Ended							
	May 25, 2019	Feb. 23, 2019	Nov. 24, 2018	Aug. 25, 2018	May 26, 2018	Feb. 24, 2018	Nov. 25, 2017	Aug. 26, 2017
	(In thousands, except net income per common share)							
Revenue	\$ 182,144	\$ 179,498	\$ 188,799	\$ 178,558	\$ 183,791	\$ 172,414	\$ 156,738	\$ 141,186
Direct cost of services, payroll and related taxes for professional services	109,188	111,587	115,378	110,407	113,363	109,904	97,319	87,488
Gross margin	72,956	67,911	73,421	68,151	70,428	62,510	59,419	53,698
Selling, general and administrative expenses	56,890	55,587	54,959	56,366	58,861	55,268	47,498	47,415
Amortization of intangible	944	948	952	955	972	1,004	322	-
Depreciation expense	1,250	1,163	1,197	1,069	1,115	1,089	947	940
Income from operations	13,872	10,213	16,313	9,761	9,480	5,149	10,652	5,343
Interest expense	461	595	608	526	553	508	365	309
Income before provision for income taxes	13,411	9,618	15,705	9,235	8,927	4,641	10,287	5,034
Provision for income taxes	4,042	3,822	5,141	3,494	4,946	46	2,149	2,922
Net income	\$ 9,369	\$ 5,796	\$ 10,564	\$ 5,741	\$ 3,981	\$ 4,595	\$ 8,138	\$ 2,112
Net income per common share								
Basic	\$ 0.30	\$ 0.18	\$ 0.33	\$ 0.18	\$ 0.13	\$ 0.15	\$ 0.27	\$ 0.07
Diluted	\$ 0.29	\$ 0.18	\$ 0.33	\$ 0.18	\$ 0.12	\$ 0.14	\$ 0.27	\$ 0.07

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

Our quarterly results have fluctuated in the past and we believe they will continue to do so in the future. Certain factors that could affect our quarterly operating results are described in Part I Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended May 25, 2019, filed with the SEC on July 19, 2019. Due to these and other factors, we believe that quarter-to-quarter comparisons of our results of operations are not meaningful indicators of future performance.

Liquidity and Capital Resources

Our primary source of liquidity is cash provided by our operations and 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 25, 2019. 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 May 25, 2019, the Company had \$43.0 million of cash and cash equivalents including \$25.6 million held in international operations.

We entered into the Facility in October 2016, which 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. The Company's borrowings on the Facility were \$43.0 million as of May 25, 2019 and the Company had \$1.3 million of outstanding letters of credit issued under the Facility as of May 25, 2019. Subsequent to year end, on June 28, 2019, the Company made a \$5.0 million principal payment on the Facility. The Facility contains both affirmative and negative covenants. The Company was in compliance with all financial covenants under the Facility as of May 25, 2019. Additional information regarding the Facility is included in Note 6 — *Long Term Debt* in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

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 our use of our Facility. In addition, if we decide to make additional share repurchases, we may fund these through existing cash balances or use of our Facility. The sale of additional equity securities or certain forms of debt financing could result in additional dilution to our stockholders. We may not be able to obtain financing arrangements in amounts or on terms acceptable to us in the future. In the event we are unable to obtain additional financing when needed, we may be compelled to delay or curtail our plans to develop our business or to pay dividends on our capital stock, which could have a material adverse effect on our operations, market position and competitiveness.

Operating Activities, fiscal 2019 and 2018

Operating activities provided \$43.6 million and \$15.4 million in cash in fiscal 2019 and fiscal 2018, respectively. Cash provided by operations in fiscal 2019 resulted from net income of \$31.5 million and net favorable non-cash reconciling adjustments of \$22.6 million. Other balance sheet account changes in fiscal 2019, including working capital balances, were a net use of cash of \$10.4 million. The primary drivers of the increase in working capital are the increase in the balance of accounts receivable as of the end of the fiscal year 2019, reflecting increasing revenue during the fourth quarter, and the unfavorable increase in the balance of income taxes due during fiscal 2019. In fiscal 2018, cash provided by operations resulted from net income of \$18.8 million and net favorable non-cash reconciling adjustments of \$8.2 million. Other balance sheet account changes in fiscal 2018, including working capital balances, were a net use of cash of \$11.7 million, due primarily to the increase in the balance of accounts receivable as of the end of the fiscal year, reflecting increasing revenue during the fourth quarter; the accounts receivable increase was offset by an increase in bonus obligations, payable in the first quarter of fiscal 2019.

Investing Activities, fiscal 2019 and 2018

Net cash used in investing activities was \$12.9 million for fiscal 2019, compared to \$25.7 million in fiscal 2018. Fiscal 2018 included cash used to acquire Accretive and *taskforce* of approximately \$23.5 million, net of cash acquired; the Company did not make any business acquisitions during fiscal 2019. Purchases of property and equipment increased approximately \$4.7 million between the two periods as the Company relocated or refurbished certain offices during fiscal 2019. Included in fiscal 2019 was a purchase of \$6.0 million of short-term investments.

Financing Activities, fiscal 2019 and 2018

Net cash used by financing activities totaled \$43.6 million compared to net cash provided of \$3.5 million for the years ended May 25, 2019 and May 26, 2018, respectively. Financing activities for fiscal 2019 include dividends paid on the Company's common stock of \$16.2 million, approximately \$1.9 million higher than in the comparable prior fiscal year. Additional information regarding dividends is included in Note 10 — *Stockholders' Equity* in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

The Company used \$29.9 million to purchase approximately 1.8 million shares of common stock on the open market during fiscal 2019. In fiscal 2018, the Company used \$5.1 million to purchase 321,000 shares of common stock on the open market. Proceeds from the exercise of employee stock options and issuance of shares via the ESPP were approximately \$24.3 million in fiscal 2019 as compared to \$10.4 million in fiscal 2018. The Company also repaid \$20.0 million of its obligation on the Facility during fiscal 2019. In fiscal 2018, the Company borrowed \$15.0 million under the Facility as part of the Accretive acquisition.

As described in Note 3 – *Acquisitions* in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report, the purchase agreement for *taskforce* requires earn-out payments to be made. The Company paid the portion related to Adjusted EBITDA for calendars 2018 and 2017 of €1.6 million (approximately \$1.9 million) and €2.1 million (approximately \$2.6 million) on March 27, 2019 and March 28, 2018, respectively.

For a comparison of our cash flow activities for the fiscal years ended May 26, 2018 and May 27, 2017, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended May 26, 2018, filed with the SEC on July 23, 2018 (File No. 0-32113).

Contractual Obligations

At May 25, 2019, the Company had operating leases, primarily for office premises, and purchase obligations include payments due under various types of licenses, expiring at various dates through March 2028. At May 25, 2019, the Company had no capital leases. The following table summarizes our future minimum rental commitments under operating leases and our other known contractual obligations as of May 25, 2019:

	Payments Due by Period				
	Total	Fiscal 2020	Fiscal 2021-2022	Fiscal 2023-2024	Thereafter
	(Amounts in thousands)				
Operating lease obligations	\$ 54,705	\$ 12,828	\$ 21,548	\$ 14,286	\$ 6,043
Purchase obligations	\$ 1,959	\$ 1,784	\$ 175	\$ -	\$ -
Long-term debt	\$ 43,000	\$ -	\$ 43,000	\$ -	\$ -

Long-term debt above reflects the Company's outstanding borrowings under the Facility as of May 25, 2019, assumes no future borrowings under the Facility and does not include any estimated future interest payments.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Inflation

Inflation was not a material factor in either revenue or operating expenses during the fiscal years ended May 25, 2019, May 26, 2018 or May 27, 2017.

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.

At the end of fiscal 2019, we had approximately \$43.0 million of cash and cash equivalents and \$43.0 million of borrowings under our Facility. The earnings on cash and cash equivalents 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. Subsequent to year end, on June 28, 2019, the Company made a \$5.0 million principal payment on the Facility.

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 interest rate risk related to fluctuations in the LIBOR rate; at the current level of borrowing as of May 25, 2019 of \$43.0 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 year ended May 25, 2019, approximately 21.0% 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 41% of our fiscal year-end balances of cash and cash equivalents were denominated in U.S. dollars. The remaining amount of approximately 59% was comprised primarily of cash balances translated from Euros, Mexican Pesos, British Pound Sterling and Chinese Yuan. 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.

CAUTION CONCERNING FORWARD LOOKING STATEMENTS

This Annual Report, including information incorporated herein by reference, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to expectations concerning matters that are not historical facts. Such forward-looking statements may be identified by words such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should" or "will" or the negative of these terms or other comparable terminology.

These statements and all phases of our operations are subject to known and unknown risks, uncertainties and other factors 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 Item 1A of this Annual Report on Form 10-K, as well as our other reports filed with the Securities and Exchange Commission ("SEC"). 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 these forward-looking statements, which speak only as of the date of this Annual Report. 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 Annual Report or to reflect the occurrence of unanticipated events, unless required by law to do so.

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CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Resources Connection, Inc. and its subsidiaries (the Company) as of May 25, 2019 and May 26, 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended May 25, 2019, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of May 25, 2019 and May 26, 2018, and the results of its operations and its cash flows for each of the three years in the period ended May 25, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of May 25, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated July 19, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2013.

Irvine, California
July 19, 2019

**RESOURCES CONNECTION, INC.
CONSOLIDATED BALANCE SHEETS**

	<u>May 25, 2019</u>	<u>May 26, 2018</u>
	(Amounts in thousands, except par value per share)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43,045	\$ 56,470
Short-term investments	5,981	-
Trade accounts receivable, net of allowance for doubtful accounts of \$2,520 and \$1,640 as of May 25, 2019 and May 26, 2018, respectively	133,304	130,452
Prepaid expenses and other current assets	7,103	7,230
Income taxes receivable	2,224	729
Total current assets	<u>191,657</u>	<u>194,881</u>
Goodwill	190,815	191,950
Intangible assets, net	14,589	18,531
Property and equipment, net	26,632	22,413
Deferred income taxes	1,497	2,850
Other assets	3,180	2,049
Total assets	<u>\$ 428,370</u>	<u>\$ 432,674</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 21,634	\$ 23,280
Accrued salaries and related obligations	58,628	58,418
Other liabilities	11,154	12,826
Total current liabilities	<u>91,416</u>	<u>94,524</u>
Long-term debt	43,000	63,000
Deferred income taxes	5,146	-
Other long-term liabilities	6,412	6,325
Total liabilities	<u>145,974</u>	<u>163,849</u>
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; 63,054 and 61,252 shares issued, and 31,588 and 31,614 shares outstanding as of May 25, 2019 and May 26, 2018, respectively	631	613
Additional paid-in capital	460,226	429,578
Accumulated other comprehensive loss	(12,588)	(10,385)
Retained earnings	350,230	335,741
Treasury stock at cost, 31,466 and 29,638 shares as of May 25, 2019 and May 26, 2018, respectively	<u>(516,103)</u>	<u>(486,722)</u>
Total stockholders' equity	<u>282,396</u>	<u>268,825</u>
Total liabilities and stockholders' equity	<u>\$ 428,370</u>	<u>\$ 432,674</u>

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

RESOURCES CONNECTION, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
	(Amounts in thousands, except per share amounts)		
Revenue	\$ 728,999	\$ 654,129	\$ 583,411
Direct cost of services, primarily payroll and related taxes for professional services employees	446,560	408,074	362,086
Gross margin	282,439	246,055	221,325
Selling, general and administrative expenses	223,802	209,042	183,471
Amortization of intangible assets	3,799	2,298	-
Depreciation expense	4,679	4,091	3,452
Income from operations	50,159	30,624	34,402
Interest expense	2,190	1,735	629
Income before provision for income taxes	47,969	28,889	33,773
Provision for income taxes	16,499	10,063	15,122
Net income	<u>\$ 31,470</u>	<u>\$ 18,826</u>	<u>\$ 18,651</u>
Net income per common share:			
Basic	<u>\$ 1.00</u>	<u>\$ 0.61</u>	<u>\$ 0.57</u>
Diluted	<u>\$ 0.98</u>	<u>\$ 0.60</u>	<u>\$ 0.56</u>
Weighted average common shares outstanding:			
Basic	<u>31,596</u>	<u>30,741</u>	<u>32,851</u>
Diluted	<u>32,207</u>	<u>31,210</u>	<u>33,471</u>
Cash dividends declared per common share	<u>\$ 0.52</u>	<u>\$ 0.48</u>	<u>\$ 0.44</u>

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
	(Amounts in thousands)		
COMPREHENSIVE INCOME:			
Net income	\$ 31,470	\$ 18,826	\$ 18,651
Foreign currency translation adjustment, net of tax	(2,203)	1,011	(602)
Total comprehensive income	<u>\$ 29,267</u>	<u>\$ 19,837</u>	<u>\$ 18,049</u>

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balances as of May 28, 2016	58,237	582	388,763	22,008	(363,856)	(10,794)	327,954	342,649
Exercise of stock options	305	3	3,853					3,856
Stock-based compensation expense			6,068					6,068
Tax shortfall from stock-based compensation arrangements			(4,344)					(4,344)
Issuance of common stock under Employee Stock Purchase Plan	359	4	4,489					4,493
Issuance of restricted stock	92	1	(1)					-
Issuance of restricted stock out of treasury stock to board of director members				(36)	838		(838)	-
Forfeitures of restricted stock	(1)							-
Purchase of shares				7,358	(118,886)			(118,886)
Cash dividends declared (\$0.44 per share)							(13,743)	(13,743)
Currency translation adjustment						(602)		(602)
Net income for the year ended May 27, 2017							18,651	18,651
Balances as of May 27, 2017	58,992	590	398,828	29,330	(481,904)	(11,396)	332,024	238,142
Exercise of stock options	517	6	6,483					6,489
Stock-based compensation expense			5,978					5,978
Issuance of common stock under Employee Stock Purchase Plan	339	3	3,947					3,950
Issuance of restricted stock	105	1	(1)					-
Issuance of restricted stock out of treasury stock to board of director members				(13)	298		(298)	-
Purchase of shares				321	(5,116)			(5,116)
Issuance of common stock for acquisition of Accretive	1,072	11	11,743					11,754
Issuance of common stock for acquisition of <i>taskforce</i>	227	2	2,600					2,602
Cash dividends declared (\$0.48 per share)							(14,811)	(14,811)
Currency translation adjustment						1,011		1,011
Net income for the year ended May 26, 2018							18,826	18,826
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	1,444	15	19,794					19,809
Stock-based compensation expense			6,358					6,358
Issuance of common stock under Employee Stock Purchase Plan	358	3	4,496					4,499
Issuance of restricted stock out of treasury stock to board of director members				(21)	510		(510)	-
Purchase of shares				1,849	(29,891)			(29,891)
Cash dividends declared (\$0.52 per share)							(16,471)	(16,471)
Currency translation adjustment						(2,203)		(2,203)
Net income for the year ended May 25, 2019							31,470	31,470
Balances as of May 25, 2019	<u>63,054</u>	<u>\$ 631</u>	<u>\$ 460,226</u>	<u>31,466</u>	<u>\$ (516,103)</u>	<u>\$ (12,588)</u>	<u>\$ 350,230</u>	<u>\$ 282,396</u>

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

RESOURCES CONNECTION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
Cash flows from operating activities:			
Net income	\$ 31,470	\$ 18,826	\$ 18,651
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,478	6,389	3,452
Stock-based compensation expense	6,570	6,033	6,068
Contingent consideration adjustment	(590)	-	-
Loss on disposal of assets	126	14	19
Bad debt expense	1,540	826	458
Deferred income taxes	6,452	(5,035)	4,530
Changes in operating assets and liabilities, net of effects of business combinations:			
Trade accounts receivable	(5,690)	(19,373)	(1,494)
Prepaid expenses and other current assets	109	(1,567)	374
Income taxes	(4,324)	4,733	(6,232)
Other assets	(1,147)	(166)	253
Accounts payable and accrued expenses	(1,469)	3,332	681
Accrued salaries and related obligations	547	4,173	(434)
Other liabilities	1,549	(2,815)	1,939
Net cash provided by operating activities	<u>43,621</u>	<u>15,370</u>	<u>28,265</u>
Cash flows from investing activities:			
Redemption of short-term investments	-	-	24,957
Purchase of short-term investments	(5,981)	-	-
Proceeds from sale of property and equipment	-	4	233
Acquisition of Accretive	-	(20,047)	-
Acquisition of <i>taskforce</i> , net of cash acquired	-	(3,410)	-
Purchase of property and equipment	(6,896)	(2,213)	(4,781)
Net cash (used in) provided by investing activities	<u>(12,877)</u>	<u>(25,666)</u>	<u>20,409</u>
Cash flows from financing activities:			
Proceeds from exercise of stock options	19,809	6,489	3,864
Proceeds from issuance of common stock under Employee Stock Purchase Plan	4,499	3,949	4,493
Purchase of common stock	(29,891)	(5,116)	(118,886)
Payment of contingent consideration	(1,860)	(2,579)	-
Proceeds from Revolving Credit Facility	-	15,000	58,000
Repayment on Revolving Credit Facility	(20,000)	-	(10,000)
Debt issuance costs	-	-	(190)
Cash dividends paid	(16,158)	(14,269)	(14,157)
Net cash (used in) provided by financing activities	<u>(43,601)</u>	<u>3,474</u>	<u>(76,876)</u>
Effect of exchange rate changes on cash	(568)	963	(558)
Net decrease in cash	<u>(13,425)</u>	<u>(5,859)</u>	<u>(28,760)</u>
Cash and cash equivalents at beginning of period	56,470	62,329	91,089
Cash and cash equivalents at end of period	<u>\$ 43,045</u>	<u>\$ 56,470</u>	<u>\$ 62,329</u>

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

RESOURCES CONNECTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Company and its Business

Resources Connection, Inc. (“Resources Connection”), a Delaware corporation, was incorporated on November 16, 1998. The Company’s operating entities provide services primarily under the name Resources Global Professionals (“RGP” or the “Company”). RGP is a global consulting firm that enables rapid business outcomes by bringing together the right people to create transformative change. As a human capital partner for our clients, the Company specializes in solving today’s most pressing business problems across the enterprise in the areas of Business Transformation, Governance, Risk and Compliance and Technology and Digital Innovation. 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 Saturday in May closest to May 31. Fiscal years 2019, 2018 and 2017 consisted of four 13 week quarters and a total of 52 weeks of activity for the fiscal year. For fiscal years of 53 weeks (which next occurs for fiscal 2020), the first three quarters consist of 13 weeks each and the fourth quarter consists of 14 weeks.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Consolidated Financial Statements of the Company (“financial statements”) have been prepared in conformity with accounting principles generally accepted in the U.S. (“GAAP”) and the rules of the Securities and Exchange Commission (“SEC”). The financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 for the fiscal year ended May 25, 2019.

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 \$12.3 million, \$11.8 million and \$10.1 million for the years ended May 25, 2019, May 26, 2018 and May 27, 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 typical arrangement of payment due within 30 days. To a much lesser extent, the Company also earns revenue if one of its 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. Conversion fees were 0.5%, 0.4% and 0.5% of revenue for the years ended May 25, 2019, May 26, 2018 and May 27, 2017, respectively. Permanent placement fees were 0.6%, 0.3% and 0.1% of revenue for the years ended May 25, 2019, May 26, 2018 and May 27, 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 current exchange rates, income and expense items are translated at average exchange rates prevailing during the period and the related translation adjustments are recorded as a component of comprehensive income or loss within stockholders’ equity. Gains and losses from foreign currency transactions are included in selling, general and administrative expenses in the Consolidated Statements of Operations.

Per Share Information

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

The following table summarizes the calculation of net income per share for the years ended May 25, 2019, May 26, 2018 and May 27, 2017 (in thousands, except per share amounts):

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
Net income	\$ 31,470	\$ 18,826	\$ 18,651
Basic:			
Weighted average shares	31,596	30,741	32,851
Diluted:			
Weighted average shares	31,596	30,741	32,851
Potentially dilutive shares	611	469	620
Total dilutive shares	32,207	31,210	33,471
Net income per common share:			
Basic	\$ 1.00	\$ 0.61	\$ 0.57
Dilutive	\$ 0.98	\$ 0.60	\$ 0.56
Anti-dilutive shares not included above	3,316	4,619	4,582

Cash and Cash Equivalents

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

Financial Instruments

The fair value of the Company's financial instruments reflects the amounts that the Company estimates it will receive in connection with the sale of an asset in an orderly transaction between market participants at the measurement date (exit price). The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 – Unobservable inputs.

The following table shows the Company's financial instruments that are measured and recorded in the consolidated financial statements at fair value on a recurring basis (in thousands):

	May 25, 2019			May 26, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Short-term investments	\$ -	\$ 5,981	\$ -	\$ -	\$ -	\$ -
Total assets	\$ -	\$ 5,981	\$ -	\$ -	\$ -	\$ -
Liabilities:						
Contingent consideration liability	\$ -	\$ -	\$ 2,195	\$ -	\$ -	\$ 4,289
Total liabilities	\$ -	\$ -	\$ 2,195	\$ -	\$ -	\$ 4,289

The Company's short-term investments had original contractual maturities of between three months and one year and are considered "held-to-maturity" securities. The Company had no investments with a maturity in excess of one year as of the

end of either fiscal year 2019 or 2018. The Company's investments in commercial paper are measured using quoted prices in markets that are not active (Level 2). There were no unrealized holding gains or losses as of May 25, 2019.

The contingent consideration liability in the table above is for estimated future contingent consideration payments related to the prior acquisition of *taskforce*. The fair value measurement of this liability is based on significant inputs not observed in the market and thus represents a Level 3 measurement. The significant unobservable inputs used in the fair value measurement of the contingent consideration liability are the Company's measures of the estimated payouts based on internally generated financial projections and discount rates. The fair value of this contingent consideration liability is reassessed on a quarterly basis by the Company using additional information as it becomes available, and any change in the fair value estimates are recorded in selling, general and administrative expenses in the Company's Consolidated Statements of Operations. See Note 3 – Acquisitions.

The Company's financial instruments, including cash, accounts receivable, accounts payable, accrued expenses and long-term debt are carried at cost, which approximates their fair value because of the short-term maturity of these instruments or because their stated interest rates are indicative of market interest rates.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from its clients' failure to make required payments for services rendered. Management estimates this allowance based upon knowledge of the financial condition of the Company's clients (which may not include knowledge of all significant events), review of historical receivable and reserve trends and other pertinent information. If the financial condition of the Company's clients deteriorates or there is an unfavorable trend in aggregate receivable collections, additional allowances may be required.

The following table summarizes the activity in our allowance for doubtful accounts (in thousands):

	Beginning Balance	Charged to Operations	Currency Rate Changes	(Write-offs)/ Recoveries	Ending Balance
Years Ended:					
May 27, 2017	\$ 2,994	\$ 458	\$ (20)	\$ (915)	\$ 2,517
May 26, 2018	\$ 2,517	\$ 826	\$ 12	\$ (1,715)	\$ 1,640
May 25, 2019	\$ 1,640	\$ 1,540	\$ -	\$ (660)	\$ 2,520

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the following estimated useful lives:

Building	30 years
Furniture	5 to 10 years
Leasehold improvements	Lesser of useful life of asset or term of lease
Computer, equipment and software	3 to 5 years

Costs for normal repairs and maintenance are expensed to operations as incurred, while renewals and major refurbishments are capitalized.

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

Goodwill and Intangible Assets

Goodwill is recorded at the time of an acquisition and is calculated as the difference between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. Goodwill is not subject to amortization but the carrying value is tested for impairment on an annual basis in the fourth quarter of our fiscal year, or more frequently if the Company believes indicators of impairment exist. Impairment evaluations involve management's assessment of qualitative factors to determine whether it is more likely than not that goodwill is impaired. If management concludes from its assessment of qualitative factors that it is more likely than not that impairment exists, then a quantitative impairment test will be performed involving management estimates of asset useful lives and future cash flows. Significant management judgment is required in the forecasts of future operating results that are used in these evaluations. For application of this methodology the Company determined that it operates as a single reporting unit resulting from the combination of its practice offices. The Company's annual goodwill impairment analysis indicated that there was no related impairment for the fiscal years ended May 25, 2019, May 26, 2018, and May 27, 2017.

The Company's identifiable intangible assets include customer contracts and relationships, tradenames, consultant list, and non-compete agreements. These assets are amortized on a straight-line basis over lives ranging from three to ten years.

See Note 4 — *Intangible Assets and Goodwill* for a further description of the Company's intangible assets.

Stock-Based Compensation

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

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

See Note 11 — *Stock-Based Compensation Plans* for further information on the 2014 Plan and stock-based compensation.

Income Taxes

The Company recognizes deferred income taxes for the estimated tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized when, in management's opinion, it is more likely than not that some portion of the deferred tax assets will not be realized. The provision for income taxes represents current taxes payable net of the change during the period in deferred tax assets and liabilities.

Recent Accounting Pronouncements

Accounting Pronouncements Adopted During Fiscal Year 2019

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. The adoption of ASC 606 did not have a significant impact on the Company's revenue recognition; therefore, the Company did not have an opening retained earnings adjustment for the year ended May 25, 2019. 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 Financial Accounting Standards Board (“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 post implementation 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. The initiative is now complete and the amount capitalized during fiscal 2019 was approximately \$0.8 million and is accounted for in Other Assets in the Company’s Consolidated Balance Sheet.

Accounting Pronouncements Pending 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. ASU 2016-02 was effective for the Company beginning May 26, 2019. The Company will adopt this standard utilizing the optional transition method by recognizing a cumulative-effect adjustment to the opening balance of retained earnings on the adoption date without retrospective application to comparative periods. The Company will elect the package of practical expedients permitted under the transition guidance within the new standard. The Company will also elect the practical expedient to keep leases with an initial term of 12 months or less off of the balance sheet. While we are currently finalizing our implementation of new policies, processes and internal controls to comply with the new rules, we anticipate that the adoption of the new standard will result in the recognition of right of use assets and lease liabilities on our consolidated balance sheet of between \$45 million and \$50 million as of the beginning of the first quarter of fiscal 2020. The adoption of the new standard will not have a material impact on the Company’s consolidated statement of operations or consolidated statement of cash flows.

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.

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 provided clients with senior interim management and project management expertise. Subsequent to the acquisition, *taskforce* continues to operate as a separate brand. 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.

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

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

Cash	\$	4,384
Working capital adjustment -receivable		(123)
Common stock - 226,628 shares @ \$11.48 (closing price on acquisition date discounted for restriction on		2,602
Estimated initial contingent consideration		6,514
Total	\$	<u>13,377</u>

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

Cash and cash equivalents	\$	974
Accounts receivable		1,930
Prepaid expenses and other current assets		45
Intangible assets		5,727
Property and equipment		39
Total identifiable assets		<u>8,715</u>
Accounts payable and accrued expenses		2,116
Accrued salaries and related obligations		16
Other current liabilities		140
Total liabilities assumed		<u>2,272</u>
Net identifiable assets acquired		6,443
Deferred tax liability		(1,815)
Goodwill		8,749
Net assets acquired	\$	<u>13,377</u>

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 was 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 year 2017 of €2.1 million (approximately \$2.6 million) was made on March 28, 2018. The payment for calendar year 2018 of €1.6 million (approximately \$1.9 million) was made on March 27, 2019. The Company estimated the fair value of the obligation to pay the remaining contingent consideration for calendar year 2019 based on a number of different projections of the estimated Adjusted EBITDA for the year. 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 year 2019 totals €2.0 million (approximately \$2.2 million based on the exchange rate on the last day of fiscal 2019) as of May 25, 2019. 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 year ended May 25, 2019, the Company decreased the remaining estimated contingent consideration for calendar year 2019 by €523,000 (\$590,000) and also recognized accretion expense on the discounted liability. These amounts are included in S, G & A for the respective periods. Results of operations of *taskforce* are included in the Consolidated Statements of Operations from the date of acquisition.

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 Countysy 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 common stock will be due after settlement of working capital adjustments. Further, additional amounts may be paid to the sellers at the end of a certain period of time if there are no claims or may be used to satisfy any preacquisition claims in favor of the buyers. As of the end of fiscal 2019, the amounts due based on initial estimates of the resolution of these items are \$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 May 25, 2019.

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

Cash	\$	20,047
Common stock - 1,072,474 shares @ \$10.96 (closing price on acquisition date discounted for restriction on		11,754
Total	\$	<u>31,801</u>

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

Accounts receivable	\$	11,360
Prepaid expenses and other current assets		1,084
Intangible assets		15,200
Property and equipment		979
Total identifiable assets		<u>28,623</u>
Accounts payable and accrued expenses		3,649
Accrued salaries and related obligations		4,562
Other current liabilities		136
Total liabilities assumed		<u>8,347</u>
Net identifiable assets acquired		20,276
Goodwill		11,525
Net assets acquired	\$	<u>31,801</u>

4. Intangible Assets and Goodwill

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

	As of May 25, 2019			As of May 26, 2018		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer contracts and relationships (3-8 years)	\$ 14,495	\$ (3,439)	\$ 11,056	\$ 14,565	\$ (1,263)	\$ 13,302
Tradenames (3-10 years)	4,407	(1,563)	2,844	4,481	(560)	3,921
Consultant list (3 years)	783	(462)	321	815	(205)	610
Non-compete agreements (3 years)	896	(528)	368	932	(234)	698
Total	<u>\$ 20,581</u>	<u>\$ (5,992)</u>	<u>\$ 14,589</u>	<u>\$ 20,793</u>	<u>\$ (2,262)</u>	<u>\$ 18,531</u>

The weighted-average useful lives of the customer contracts and relationships and other are approximately 5.2 and 1.5 years, respectively.

The following table summarizes amortization expense for the years stated (in thousands):

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
Amortization expense	\$ 3,799	\$ 2,298	\$ -

The following table presents future estimated amortization expense based on existing intangible assets for the years presented (in thousands):

	Fiscal Years Ending				
	2020	2021	2022	2023	2024
Expected amortization expense	\$ 3,770	\$ 2,484	\$ 1,778	\$ 1,778	\$ 1,778

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

	For the Years Ended	
	May 25, 2019	May 26, 2018
Goodwill, beginning of year	\$ 191,950	\$ 171,088
Acquisitions- <i>taskforce</i> (see Note 3)	-	8,749
Acquisitions-Accretive (see Note 3)	-	11,525
Impact of foreign currency exchange rate changes	(1,135)	588
Goodwill, end of period	<u>\$ 190,815</u>	<u>\$ 191,950</u>

5. Property and Equipment

Property and equipment consist of the following (in thousands):

	As of May 25, 2019	As of May 26, 2018
	Building and land	\$ 14,227
Computers, equipment and software	20,042	18,965
Leasehold improvements	22,074	19,802
Furniture	11,260	10,427
	67,603	63,392
Less accumulated depreciation and amortization	(40,971)	(40,979)
	<u>\$ 26,632</u>	<u>\$ 22,413</u>

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 ("Revolving Loan"), which includes a \$5 million sublimit for the issuance of standby letters of credit, and (ii) a \$30 million reducing revolving loan facility ("Reducing Revolving Loan"), any amounts of which may not be reborrowed after being repaid. 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 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 dispositions 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.

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 \$43.0 million and \$63.0 million as of May 25, 2019 and May 26, 2018, respectively. In addition, the Company has \$1.3 million and \$1.0 million of outstanding letters of credit issued under the Facility as of May 25, 2019 and May 26, 2018, respectively. There was \$47.0 million remaining to borrow under the Revolving Loan and \$30.0 million remaining under the Reducing Revolving Loan as of May 25, 2019. As of May 25, 2019, the interest rates on the Company's borrowings were 4.1% on each of the three tranches of the Company's borrowings of \$24.0 million, \$10.0 million and \$9.0 million, respectively, based on a 3-month LIBOR plus 1.5%.

Subsequent to year end, on June 28, 2019, the Company made a \$5.0 million principal payment on the Facility.

7. Income Taxes

The following table represents the current and deferred income tax provision for federal, state and foreign income taxes attributable to operations (in thousands):

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
Current			
Federal	\$ 5,068	\$ 10,785	\$ 10,901
State	2,278	2,829	2,551
Foreign	2,690	(392)	1,472
	<u>10,036</u>	<u>13,222</u>	<u>14,924</u>
Deferred			
Federal	5,890	(3,011)	259
State	619	367	62
Foreign	(46)	(515)	(123)
	<u>6,463</u>	<u>(3,159)</u>	<u>198</u>
	<u>\$ 16,499</u>	<u>\$ 10,063</u>	<u>\$ 15,122</u>

Income before provision for income taxes is as follows (in thousands):

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
Domestic	\$ 41,828	\$ 26,774	\$ 32,390
Foreign	6,141	2,115	1,383
	<u>\$ 47,969</u>	<u>\$ 28,889</u>	<u>\$ 33,773</u>

The provision for income taxes differs from the amount that would result from applying the federal statutory rate as follows:

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
Statutory tax rate	21.0 %	29.4 %	35.0 %
State taxes, net of federal benefit	4.9	7.9	5.0
Non-U.S. rate adjustments	1.3	(0.8)	0.1
Stock-based compensation	2.8	4.5	0.7
Long-term net capital gains	(6.1)	10.1	-
Foreign tax credit	9.3	(16.5)	(0.1)
Valuation allowance	(2.8)	(4.3)	1.2
Global Intangible Low-Taxed Income ("GILTI")	1.1	-	-
Permanent items, primarily meals and entertainment	1.4	3.2	2.2
Deferred tax impact of U.S. federal rate changes	0.1	(2.8)	-
Deferred tax impact of foreign rate changes	1.2	3.9	0.5
Other, net	0.2	0.2	0.2
Effective tax rate	<u>34.4 %</u>	<u>34.8 %</u>	<u>44.8 %</u>

The impact of state taxes, net of federal benefit, and foreign income taxed at other than U.S. rates fluctuates year over year due to the changes in the mix of operating income and losses amongst the various states and foreign jurisdictions in which the Company operates.

The components of the net deferred tax asset (liability) consist of the following (in thousands):

	As of May 25, 2019	As of May 26, 2018
Deferred tax assets:		
Allowance for doubtful accounts	\$ 1,108	\$ 854
Accrued compensation	3,347	3,210
Accrued expenses	2,418	2,311
Stock options and restricted stock	5,541	7,326
Foreign tax credit	498	5,596
Net operating losses	14,489	15,563
Property and equipment	-	1,017
State taxes	208	138
Gross deferred tax asset	27,609	36,015
Valuation allowance	(13,190)	(15,298)
Gross deferred tax asset, net of valuation allowance	14,419	20,717
Deferred tax liabilities:		
Property and equipment	(77)	-
Goodwill and intangibles	(17,991)	(17,867)
Net deferred tax asset (liability)	<u>\$ (3,649)</u>	<u>\$ 2,850</u>

The Company had a net income tax receivable of \$1.0 million and income tax payable of \$3.3 million as of May 25, 2019 and May 26, 2018, respectively.

The tax benefit associated with the exercise of nonqualified stock options and the disqualifying dispositions by employees of incentive stock options, restricted stock awards and shares issued under the Company's ESPP reduced income taxes payable by \$1.8 million and \$1.1 million for the years ended May 25, 2019 and May 26, 2018, respectively.

The Company has foreign net operating loss carryforwards of \$63.5 million and foreign tax credit carryforwards of \$0.5 million. The foreign tax credits will expire beginning in fiscal 2023. The following table summarizes the net operating loss expiration periods.

Expiration Periods	Amount of Net Operating Losses (in thousands)
Fiscal Years Ending:	
2020	\$ 1,600
2021	4,200
2022	300
2023	300
2024	2,300
2025-2029	1,200
Unlimited	53,600
	<u>\$ 63,500</u>

The following table summarizes the activity in our valuation allowance accounts (in thousands):

	Beginning Balance	Charged to Operations	Currency Rate Changes	Ending Balance
Years Ended:				
May 27, 2017	\$ 15,714	\$ 438	\$ (181)	\$ 15,971
May 26, 2018	\$ 15,971	\$ (1,181)	\$ 508	\$ 15,298
May 25, 2019	\$ 15,298	\$ (1,440)	\$ (668)	\$ 13,190

Realization of the deferred tax assets is dependent upon generating sufficient future taxable income. Management believes that it is more likely than not that all other remaining deferred tax assets will be realized through future taxable earnings or alternative tax strategies.

Deferred income taxes have not been provided on the undistributed earnings of approximately \$17.6 million from the Company's foreign subsidiaries as of May 25, 2019 since these amounts are intended to be indefinitely reinvested in foreign operations. If the earnings of the Company's foreign subsidiaries were to be distributed, management estimates that the income tax impact would be immaterial as a result of the transition tax and federal dividends received deduction for foreign source earnings provided under the US Tax Cuts and Jobs Act of 2017.

The following table summarizes the activity related to the gross unrecognized tax benefits (in thousands):

	For the Years Ended	
	May 25, 2019	May 26, 2018
Unrecognized tax benefits, beginning of year	\$ 42	\$ 42
Gross increases-tax positions in prior period	-	-
Gross decreases-tax positions in prior period	-	-
Gross increases-current period tax positions	-	42
Settlements	-	-
Lapse of statute of limitations	-	(42)
Unrecognized tax benefits, end of year	<u>\$ 42</u>	<u>\$ 42</u>

The Company's total liability for unrecognized gross tax benefits was \$42,000 as of both May 25, 2019 and May 26, 2018, which, if ultimately recognized, would impact the effective tax rate in future periods. The unrecognized tax benefits include long-term liabilities of \$42,000 as of both May 25, 2019 and May 26, 2018; none of the unrecognized tax benefits are short-term liabilities due to the closing of the statute of limitations.

The Company's major income tax jurisdiction is the U.S., with federal statute of limitations remaining open for fiscal 2016 and thereafter. For states within the U.S. in which the Company does significant business, the Company remains subject to examination for fiscal 2015 and thereafter. Major foreign jurisdictions in Europe remain open for fiscal years ended 2014 and thereafter.

The Company continues to recognize interest expense and penalties related to income tax as a part of its provision for income taxes. During the current fiscal year, the Company did not accrue for any interest and penalties as a component of the liability for unrecognized tax benefits.

8. Accrued Salaries and Related Obligations

Accrued salaries and related obligations consist of the following (in thousands):

	As of May 25, 2019	As of May 26, 2018
Accrued salaries and related obligations	\$ 19,667	\$ 22,613
Accrued bonuses	20,645	18,506
Accrued vacation	18,316	17,299
	<u>\$ 58,628</u>	<u>\$ 58,418</u>

9. Concentrations of Credit Risk

The Company currently maintains cash, cash equivalents and short-term investments in commercial paper.

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of trade receivables. However, concentrations of credit risk are limited due to the large number of customers comprising the Company's customer base and their dispersion across different business and geographic areas. The Company monitors its exposure to credit losses and maintains an allowance for anticipated losses. A significant change in the liquidity or financial position of one or more of the Company's customers could result in an increase in the allowance for anticipated losses. No single customer accounted for more than 10% of revenue for the years ended May 25, 2019, May 26, 2018 and May 27, 2017.

10. Stockholders' Equity

The Company has 70,000,000 authorized shares of common stock with a \$0.01 par value. At May 25, 2019 and May 26, 2018, there were 31,588,000 and 31,614,000 shares of common stock outstanding, respectively, all of which provide the holders with voting rights.

The Company has authorized for issuance 5,000,000 shares of preferred stock with a \$0.01 par value per share. The board of directors has the authority to issue preferred stock in one or more series and to determine the related rights and preferences. No shares of preferred stock were outstanding as of May 25, 2019 and May 26, 2018.

Stock Repurchase Program

The Company's board of directors has periodically approved a stock repurchase program authorizing the repurchase, at the discretion of the Company's senior executives, of the Company's common stock for a designated aggregate dollar limit. The current program was authorized in July 2015 (the "July 2015 program") and set 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 years ended May 25, 2019 and May 26, 2018, the Company purchased on the open market approximately 1.8 million and 0.3 million shares of its common stock, respectively, at an average price of \$16.17 and \$15.95 per share, respectively, for approximately \$29.9 million and \$5.1 million, respectively. As of May 25, 2019, approximately \$90.1 million remains available for future repurchases of the Company's common stock under the July 2015 program.

Quarterly Dividend

Subject to approval each quarter by its board of directors, the Company pays a regular dividend. On April 18, 2019, the board of directors declared a regular quarterly dividend of \$0.13 per share of the Company's common stock. The dividend, paid on June 13, 2019, was accrued in the Consolidated Balance Sheet as of May 25, 2019 for approximately \$4.1 million. Continuation of the quarterly dividend is at the discretion of the board of directors and depends upon the Company's financial condition, results of operations, capital requirements, general business condition, contractual restrictions contained in the Company's current credit agreements and other agreements, and other factors deemed relevant by the board of directors.

11. Stock-Based Compensation Plans

2014 Performance Incentive Plan

On October 23, 2014, the Company's stockholders approved the 2014 Plan. The 2014 Plan replaced the Resources Connection, Inc. 2004 Performance Incentive Plan and the 1999 Long Term Incentive Plan (the "Prior Stock Plans"). The effective date of the 2014 Plan is September 3, 2014 and, unless terminated earlier by the board of directors, will terminate on September 2, 2024. Under the terms of the 2014 Plan, the Company's board of directors or one or more committees appointed by the board of directors will administer the 2014 Plan. The board of directors has delegated general administrative authority for the 2014 Plan to the Compensation Committee of the board of directors.

The administrator of the 2014 Plan has broad authority to, among other things, select participants and determine the type(s) of award(s) that they are to receive, and determine the number of shares that are to be subject to awards and the terms and conditions of awards, including the price (if any) to be paid for the shares or the award. Persons eligible to receive awards under the 2014 Plan include officers or employees of the Company or any of its subsidiaries, directors of the Company, and certain consultants and advisors to the Company or any of its subsidiaries.

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 Prior Stock Plans and outstanding as of September 3, 2014 (the date at which the Prior Stock Plans terminated), which expire, or for any reason are cancelled or terminated, after that date without being exercised, plus (3) the number of shares subject to restricted stock, restricted stock units 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 May 25, 2019, 1,595,000 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.

The types of awards that may be granted under the 2014 Plan include stock options, restricted stock, stock bonuses, performance stock, stock units, phantom stock and other forms of awards granted or denominated in the Company's common stock or units of the Company's common stock, as well as certain cash bonus awards. Under the terms of the 2014 Plan, the option price for the incentive stock options ("ISOs") and nonqualified stock options ("NQSO") may not be less than the fair market value of the shares of the Company's stock on the date of the grant. For ISOs, the exercise price per share may not be less than 110% of the fair market value of a share of common stock on the grant date for any individual possessing more than 10% of the total outstanding stock of the Company. Stock options granted under the 2014 Plan and the Prior Stock Plans generally become exercisable over periods of one to four years and expire not more than ten years from the date of grant. The Company predominantly grants NQSOs to employees in the U.S. The Company granted 21,537 and 117,588 shares of restricted stock during the fiscal years ended May 25, 2019 and May 26, 2018, respectively.

On January 1, 2018, the Company adopted the Directors Deferred Compensation Plan, which provides the members of the Company's board of directors who are not officers or employees of the Company the opportunity to defer certain compensation and equity awards paid or granted for their service in the form of stock units ("Stock Units"). The Stock Units are used solely as a device for determining the amount of cash benefit to eventually be paid to the director. Each has the same value as one share of Resources Connection, Inc. common stock. Stock Units must be retained until the director leaves the board of directors, at which time the cash value of the Stock Units are paid out. Additional Stock Units are credited to reflect dividends paid on shares of Resources Connection, Inc. common stock. Stock Units credited to a director pursuant to an election to defer compensation (and any dividend equivalents credited thereon) are fully vested at all times. Stock Units credited to a director pursuant to an election to defer an equity award are subject to the vesting conditions applicable to the equity award, except that dividend equivalents credited to a director with respect to such Stock Units are vested at all times. These liability classified awards are re-measured at each reporting date and on settlement using the closing price of the Company's common stock on that date. Any change in fair value is recorded as stock-based compensation expense in the period. We recognize stock-based compensation on these Stock Units using the straight-line method over the requisite service period.

A summary of the share-based award activity under the 2014 Plan and the Prior Stock Plans follows (amounts in thousands, except weighted average exercise price):

	Share-Based Awards Available for Grant	Number of Shares Under Option	Weighted Average Exercise Price	Weighted Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Options outstanding at May 26, 2018	2,252	6,869	\$ 15.10	5.50	\$ 12,310
Granted, at fair market value	(1,290)	1,290	18.96		
Restricted stock (1)	(54)	-	-		
Exercised	-	(1,444)	13.72		
Forfeited (2)	241	(240)	15.91		
Expired	446	(446)	18.85		
Options outstanding at May 25, 2019	<u>1,595</u>	<u>6,029</u>	\$ 15.95	<u>6.06</u>	<u>\$ 5,482</u>
Exercisable at May 25, 2019		<u>3,547</u>	\$ 15.09	<u>4.30</u>	<u>\$ 5,051</u>
Vested and expected to vest at May 25, 2019		<u>5,789</u>	\$ 15.86	<u>5.93</u>	<u>\$ 5,472</u>

(1) Amounts represent restricted shares granted. Share-based awards available for grant are reduced by 2.5 shares for each share awarded as stock grants from the 2014 Plan.

(2) Amounts represent both stock options and restricted share awards forfeited.

(3) The expected to vest options are the result of applying the pre-vesting forfeiture rate assumptions to options not yet vested of 2,481,959 and 2,366,237 as of May 25, 2019 and May 26, 2018, respectively.

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price of \$15.56 as of May 24, 2019 (the last actual trading day of fiscal 2019), which would have been received by the option holders had all option holders exercised their options as of that date.

The total pre-tax intrinsic value related to stock options exercised during the years ended May 25, 2019, May 26, 2018 and May 27, 2017 was \$5.2 million, \$1.7 million and \$1.1 million, respectively. The total estimated fair value of stock options that vested during the years ended May 25, 2019, May 26, 2018 and May 27, 2017 was \$5.4 million, \$5.1 million and \$3.6 million, respectively.

Valuation and Expense Information for Stock Based Compensation Plans

The following table summarizes the impact of the Company's stock-based compensation plans. Stock-based compensation expense is included in selling, general and administrative expenses and consists of stock-based compensation expense related to employee stock options, ESPP stock purchase rights and restricted stock (in thousands, except per share amounts):

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
Income before income taxes	\$ (6,570)	\$ (6,033)	\$ (6,068)
Net income	\$ (6,539)	\$ (5,697)	\$ (3,962)
Net income per share:			
Basic	\$ (0.21)	\$ (0.19)	\$ (0.12)
Diluted	\$ (0.20)	\$ (0.18)	\$ (0.12)

The weighted average estimated fair value per share of employee stock options granted during the years ended May 25, 2019, May 26, 2018 and May 27, 2017 was \$4.74, \$3.61 and \$3.61, respectively, using the Black-Scholes model with the following assumptions:

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
Expected volatility	31.6% - 34.7%	30.3% - 34.5%	34.6% - 38.4%
Risk-free interest rate	3.1% - 3.2%	2.1% - 2.4%	1.3% - 1.6%
Expected dividends	3.2%	3.1%	3.0%
Expected life	5.7 - 8.3 years	5.7 - 8.2 years	5.6 - 8.1 years

As of May 25, 2019, there was \$8.3 million of total unrecognized compensation cost related to non-vested employee stock options granted. That cost is expected to be recognized over a weighted-average period of 1.83 years.

	Total Number Total Number of Shares
Unvested restricted shares outstanding at May 26, 2018	234,858
Granted	21,537
Vested	(97,017)
Forfeited	(452)
Unvested restricted shares outstanding at May 25, 2019	<u>158,926</u>

Stock-based compensation expense in the tables above includes compensation for restricted shares of \$1.7 million, \$1.4 million and \$0.8 million for the years ended May 25, 2019, May 26, 2018 and May 27, 2017 respectively. At May 25, 2019, there was approximately \$2.9 million of total unrecognized compensation cost related to restricted shares, which is expected to be recognized over a weighted-average period of 1.59 years. The Company recognizes compensation expense for only the portion of stock options and restricted shares that are 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.

Excess income tax benefits and deficiencies from stock-based compensation are now recognized as a discrete item within the provision for income taxes in the Consolidated Statement of Operations rather than additional paid-in capital in the Consolidated Balance Sheets.

Employee Stock Purchase Plan

On October 23, 2014, the Company's stockholders approved an amendment to the ESPP to extend the term of the ESPP through October 16, 2024, and to increase the maximum number of shares of the Company's common stock authorized for issuance under the ESPP by an additional 1.5 million shares to a total of 5.9 million shares.

The Company's ESPP allows qualified employees (as defined in the ESPP) to purchase designated shares of the Company's common stock at a price equal to 85% of the lesser of the fair market value of common stock at the beginning or end of each semi-annual stock purchase period. The Company issued 358,000, 339,000 and 359,000 shares of common stock pursuant to the ESPP for the years ended May 25, 2019, May 26, 2018 and May 27, 2017, respectively. There are 221,000 shares of common stock available for issuance under the ESPP as of May 25, 2019.

12. Benefit Plan

The Company has a defined contribution 401(k) plan (“the plan”) which covers all employees in the U.S. who have completed 90 days of service and are age 21 or older. Participants may contribute up to 50% of their annual salary up to the maximum amount allowed by statute. As defined in the plan agreement, the Company may make matching contributions in such amount, if any, up to a maximum of 6% of individual employees’ annual compensation. The Company, at its sole discretion, determines the matching contribution made from quarter to quarter. To receive matching contributions, the employee must be employed on the last business day of the fiscal quarter. For the years ended May 25, 2019, May 26, 2018 and May 27, 2017, the Company contributed approximately \$6.4 million, \$5.6 million and \$5.1 million, respectively, to the plan as Company matching contributions.

13. Supplemental Disclosure of Cash Flow Information

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

	For the Years Ended		
	May 25, 2019	May 26, 2018	May 27, 2017
Income taxes paid	\$ 14,229	\$ 10,601	\$ 16,756
Interest paid	\$ 2,440	\$ 1,769	\$ 628
Non-cash investing and financing activities:			
Capitalized leasehold improvements paid directly by landlord	\$ 2,312	\$ 65	\$ 1,026
Acquisition of <i>taskforce</i> :			
Issuance of common stock	\$ -	\$ 2,602	\$ -
Liability for contingent consideration	\$ 2,195	\$ 4,289	\$ -
Acquisition of Accretive:			
Issuance of common stock	\$ -	\$ 11,754	\$ -
Dividends declared, not paid	\$ 4,105	\$ 3,791	\$ 3,253

14. Commitments and Contingencies

Lease Commitments

At May 25, 2019, the Company had operating leases, expiring at various dates through March 2028, primarily for office premises, vehicles and equipment. At May 25, 2019, the Company had no capital leases. Future minimum rental commitments under operating leases as follows (in thousands):

Years Ending:	Operating Leases
May 30, 2020	\$ 12,828
May 29, 2021	11,737
May 28, 2022	9,811
May 27, 2023	7,934
May 25, 2024	6,352
Thereafter	6,043
Total	<u>\$ 54,705</u>

Rent expense for the years ended May 25, 2019, May 26, 2018 and May 27, 2017 totaled \$15.5 million, \$13.7 million and \$12.9 million, respectively. Rent expense is recognized on a straight-line basis over the term of the lease, including during any rent holiday periods.

The Company leases approximately 13,000 square feet of the approximately 57,000 square foot Company owned building located in Irvine, California to independent third parties and has operating lease agreements for sub-let space with independent third parties expiring through fiscal 2025. Rent income for the years ended May 25, 2019, May 26, 2018 and May 27, 2017 totaled \$240,000, \$305,000 and \$332,000 million, respectively. Under the terms of these operating lease agreements,

rental income from such third-party leases is expected to be \$414,000, \$368,000, \$306,000, \$226,000 and \$232,000 in fiscal 2020 through 2024, respectively, and \$78,000 thereafter.

Legal Proceedings

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

15. 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*. Summarized information regarding the Company’s domestic and international operations is shown in the following table. Amounts are stated in thousands:

	Revenue for the			Long-Lived Assets (1) as of	
	Years Ended			May 25,	May 26,
	May 25,	May 26,	May 27,	May 25,	May 26,
	2019	2018	2017	2019	2018
United States	\$ 575,641	\$ 510,935	\$ 469,846	\$ 200,385	\$ 198,280
International	153,358	143,194	113,565	31,651	34,614
Total	<u>\$ 728,999</u>	<u>\$ 654,129</u>	<u>\$ 583,411</u>	<u>\$ 232,036</u>	<u>\$ 232,894</u>

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

Evaluation of Disclosure Controls and Procedures

As required by SEC 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 May 25, 2019. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of May 25, 2019.

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). We maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including the Company’s Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the criteria established in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included an assessment of the design of the Company’s internal control over financial reporting and testing of the operational effectiveness of its internal control over

financial reporting. Based on this evaluation, management has concluded that the Company's internal control over financial reporting was effective as of May 25, 2019.

The Company's independent registered public accounting firm, RSM US LLP, has audited the effectiveness of the Company's internal control over financial reporting as of May 25, 2019, as stated in their report which is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the fiscal quarter ended May 25, 2019, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting

We have audited Resources Connection, Inc. and subsidiaries' (the Company) internal control over financial reporting as of May 25, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 25, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of May 25, 2019 and May 26, 2018, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended May 25, 2019, and our report dated July 19, 2019, expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Irvine, California
July 19, 2019

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Domestic Locations

Phoenix, Arizona
Irvine, California
Los Angeles, California (2)
Mountain View, California
Sacramento, California (2)
Santa Clara, California
San Diego, California
San Francisco, California (2)
Walnut Creek, California
Woodland Hills, California
Denver, Colorado
Hartford, Connecticut
Stamford, Connecticut
Fort Lauderdale, Florida
Jacksonville, Florida
Tampa, Florida
Atlanta, Georgia
Honolulu, Hawaii
Chicago, Illinois
Oakbrook Terrace, Illinois
Indianapolis, Indiana
Boston, Massachusetts
Detroit, Michigan

Minneapolis, Minnesota
Kansas City, Missouri
Las Vegas, Nevada
Parsippany, New Jersey
Princeton, New Jersey
New York, New York
Charlotte, North Carolina
Cincinnati, Ohio
Cleveland, Ohio
Columbus, Ohio
Tulsa, Oklahoma
Portland, Oregon
Cranberry Township, Pennsylvania
Philadelphia, Pennsylvania
Pittsburgh, Pennsylvania
Nashville, Tennessee
Austin, Texas
Dallas, Texas
Houston, Texas
San Antonio, Texas
Seattle, Washington
Washington, D.C. (McLean, Virginia)

International Locations

Sydney, Australia
Brussels, Belgium
Toronto, Canada
Paris, France
Frankfurt, Germany
Muenster, Germany
Munich, Germany
Bangalore, India
Mumbai, India
Dublin, Ireland
Milan, Italy
Tokyo, Japan
Mexico City, Mexico

Amsterdam (Utrecht), Netherlands
Beijing, People's Republic of China
Hong Kong, People's Republic of China
Guangzhou, People's Republic of China
Shanghai, People's Republic of China
Manila, Philippines
Singapore
Seoul, South Korea
Stockholm, Sweden
Zurich, Switzerland
Taipei, Taiwan
London, United Kingdom

Shareholder Information

Corporate Publications

Copies of Resources Connection Inc.'s Annual Report on Form 10-K for the year ended May 25, 2019 (excluding exhibits thereto), as well as historical Resources Connection, Inc. quarterly reports on Form 10-Q and other Securities and Exchange Commission filings (excluding exhibits thereto) are available without charge upon request to the Investor Relations Department, Resources Connection Inc., 17101 Armstrong Avenue, Irvine, CA 92614, or from the Company's Investor Relations website at <http://ir.rgp.com>.

Forward-Looking Statements

Please refer to the section entitled "Caution Concerning Forward-Looking Statements" included in this Annual Report.

Transfer Agent

American Stock Transfer & Trust Company
800-937-5449
Address: 6201 15th Avenue
Brooklyn, NY 11219

Independent Registered Public Accounting Firm

RSM US, LLP
Irvine, CA



Resources Connection, Inc.

Resources Connection, Inc. Board of Directors

Donald B. Murray

Chairman
Resources Connection, Inc.

Anthony C. Cherbak

Retired Chief Executive Officer
Resources Connection, Inc.
Retired Partner
Deloitte & Touche LLP

Susan J. Crawford

Senior Judge
United States Court of Appeals for the Armed Forces

Neil F. Dimick

Retired Chief Financial Officer
AmerisourceBergen Corporation
Retired Partner
Deloitte & Touche LLP

Kate W. Duchene

Chief Executive Officer
Resources Connection, Inc.

Robert F. Kistingner

Executive Advisor and
Former Chief Operating Officer
Bonita Banana Company
Former President and Chief Operating Officer
The Fresh Group of Chiquita Brands International, Inc.

Marco von Maltzan

Business Consultant and Independent Director
Former Chief Executive and Chief Financial Officer
BERU AG, Germany

A. Robert Pisano

Business Consultant
Former President and Chief Operating Officer
Motion Picture Association of America

Jolene Sykes Sarkis

Former Executive Vice President
CFS Restaurant Group, Inc.
Former Publisher and President
Fortune Magazine Group

Anne Shih

Chairwoman
Board of Governors of Bowers Museum
Honorary President
Chinese Cultural Arts Association

Michael H. Wargotz

Co-Founder & Executive Officer
Residence at Axxess Worldwide
Former Chief Financial Officer
The Milestone Aviation Group

Senior Corporate Executives

Kate W. Duchene

Chief Executive Officer

Timothy Brackney

President and Chief Operating Officer

Mark Campbell

Senior Vice President, Head of Europe

Katy Conway

Senior Vice President, Talent

Tracey Figurelli

Executive Vice President, Digital Innovation

Anthony Gutierrez

Senior Vice President, Head of Asia Pacific

Brandon Johnson

Chief Information Officer & EVP, Corporate Operations

Jennifer Ryu

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