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RSI HOLDINGS INC
Form 10QSB
July 13, 2004

United States
Securities and Exchange Commission
Washington, D. C. 20549

FORM 10 - QSB

(MARK ONE)

Quarterly Report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarterly Period Ended May 31, 2004 or

Transition Report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Transition Period From ----- to -----

COMMISSION FILE NUMBER 0-18091

RSI HOLDINGS, INC.
(Exact name of small business issuer as specified in its charter)

NORTH CAROLINA 56-1200363

(State or other jurisdiction of (I.R.S.
Employer incorporation or organization)
Identification No.)

28 East Court Street, P. O. Box 6847
Greenville, South Carolina 29606

(Address of principal executive offices)

(864) 271-7171

(Issuer's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

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

Yes No

State the number of shares outstanding of each of the issuer's classes of common
equity, as of the latest practicable date: Common Stock, \$.01 Par Value -
7,846,455 shares outstanding as of July 13, 2004

Transitional Small Business Disclosure Format (check one): Yes No

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RSI HOLDINGS, INC.

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SIGNATURES

RSI HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
MAY 31, 2004

Assets	
Current Assets	
Cash	\$ 115,533
Accounts receivable	152,965

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Prepaid expenses and other	48,701	
Total current assets	317,199	
Property and equipment		
Cost	134,517	
Less accumulated depreciation	64,891	
Property and equipment - net	69,626	
Other assets:		
Customer related intangible assets, net of amortization of \$290,012	1,646,277	
	\$ 2,033,102	
Liabilities and Shareholders' Deficit		
Current liabilities		
Accounts payable	\$ 90,431	
Accrued expenses	36,562	
Current maturities of long-term debt	166,545	
Total current liabilities	293,538	
Long-term debt and other liabilities		
Long-term debt	1,836,459	
Accrued interest	204,758	
Commitments and contingencies		
Shareholders' deficit:		
Common Stock, \$.01 par value-authorized 25,000,000 shares, issued and outstanding 7,846,455 shares	78,464	
Additional paid-in capital	4,951,741	
Deficit	(5,331,858)	
Total shareholders' deficit	(301,653)	
	\$ 2,033,102	

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

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RSI HOLDINGS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
 FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2004 AND MAY 31, 2003

	For the Three months Ended May 31 2004 -----	For the Nine months Ended May 31 2004 -----	Th
Revenues from services	\$1,230,643	\$ 3,685,443	\$
Cost of services	1,025,957 -----	3,057,736 -----	\$
Gross profit	204,686	627,707	
Expenses:			
Selling, general and administrative	190,196 -----	629,279 -----	
Income (loss) from operations	14,490	(1,572)	
Other income (expense):			
Interest income and other	20	75	
Interest expense	(35,135) -----	(106,600) -----	
Total other income (expense)	(35,115) -----	(106,525) -----	
Loss before income taxes	\$ (20,625)	\$ (108,097)	\$
Income tax expense	- -----	- -----	\$
Net (loss)	\$ (20,625) =====	\$ (108,097) =====	\$
Basic and diluted (loss) per share	\$ - =====	\$ (0.01) =====	\$
Shares used in computing basic and diluted (loss) per share	7,846,455 =====	7,846,455 =====	\$

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

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RSI HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE NINE MONTHS ENDED MAY 29, 2004 AND MAY 28, 2003

OPERATING ACTIVITIES

Net loss
Adjustments to reconcile net loss to net
cash (used for) provided by operating activities:
Depreciation
Amortization
Changes in current assets and liabilities

Net cash (used for) provided by operating activities

INVESTING ACTIVITIES

Purchase of property and equipment
Purchase of customer intangible assets

Net cash used for investing activities

FINANCING ACTIVITIES

Proceeds from long-term debt borrowings
Increase in accrued interest
Payment of long-term debt
Proceeds from issuance of common stock

Net cash used for financing activities

Net (decrease) increase in cash

CASH, BEGINNING OF PERIOD

CASH, END OF PERIOD

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

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RSI Holdings, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

NATURE OF BUSINESS

The Company's wholly-owned subsidiary, Employment Solutions, Inc., a South Carolina corporation ("Employment Solutions"), conducts the Company's only business, which is the business of locating and providing labor to industrial companies.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements at May 31, 2004 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments including normal recurring accruals considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended August 31, 2003.

NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed on the basis of the weighted average number of common shares outstanding in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. The treasury stock method is used to compute the effect of stock options on the weighted average number of common shares outstanding for the diluted method. Since the Company incurred a net loss during the three and nine months ended May 31, 2004 and three and nine months ended May 31, 2003, the effect of the stock options on the treasury stock method was anti-dilutive in all periods presented herein.

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NOTE 2 - LONG-TERM DEBT AND OTHER LIABILITIES

Long-term debt consists of the following:

Unsecured notes payable to Buck A. Mickel, Charles C. Mickel and Minor M. Shaw in the amount of \$83,333 each with interest payable quarterly at 8.0 percent per year. The unpaid principal balance is due on August 14, 2006. \$

Unsecured notes payable to Buck A. Mickel, Charles C. Mickel and Minor M. Shaw in the amount of \$400,000 each with interest payable quarterly at 7.0 percent per year. The unpaid principal balance is due on February 14, 2007. 1

Unsecured notes payable to Buck A. Mickel, Charles C. Mickel and Minor M. Shaw in the amount of \$20,000 each with interest payable quarterly at 7.0 percent per year. The unpaid principal balance is due on February 25, 2007.

Note payable in the original principal amount of \$800,000 to Eadon Solutions, LLC (formerly Employment Solutions, LLC) in monthly installments of \$15,466 including interest at 6.0% per year through March 4, 2007 secured by the outstanding common stock of Employment Solutions, Inc.

Note payable in the original principal amount of \$30,393 to First Citizens Bank in monthly installments of \$520 including interest at an annual rate of approximately 7.0% through October 24, 2008 and is secured by a vehicle.

Less current portion

On March 25, 2004, Minor H. Mickel gave the two notes above having principal unpaid balances of \$250,000 and \$1,200,000 and the unpaid interest at February 29, 2004 of \$177,485 in equal parts to Buck A. Mickel, Charles C. Mickel and Minor M. Shaw.

Buck A. Mickel is the President and Chief Executive Officer and a director of the Company. Charles C. Mickel is a Vice President and director of the Company. Buck A. Mickel, Charles C. Mickel and Minor M. Shaw are siblings and Minor H. Mickel is their mother.

Buck A. Mickel, Charles C. Mickel and Minor M. Shaw (and, before March 25, 2004, Minor H. Mickel), the creditors of the three notes payable aggregating \$1,200,000, have permitted the deferral of payment of interest since the note's issuance. Since November 2003, these creditors have permitted the deferral of payment of interest under the other notes payable held by them, in the aggregate principal amount of \$310,000. These creditors have agreed that they will not require payment of interest in the next twelve months. Management of the Company could decide at any time to pay all or part of the accrued interest if they determine that cash balances are sufficient to pay the interest without a detrimental effect on the future operations of the Company. The accrued interest portion of long-term debt and other liabilities consists of interest that has been accrued on the unsecured notes aggregating \$1,510,000 payable to Buck A. Mickel, Charles C. Mickel and Minor M. Shaw.

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NOTE 3 - INCOME TAXES

A 100% valuation allowance has been recorded relating to temporary differences since the Company believes that it is more likely than not that the realization of the deferred income tax assets will not be realized. The valuation allowance relates primarily to future income tax benefits of net operating loss carryforward. Management continues to assess the likelihood of the future realization of the deferred tax assets on a quarterly basis. Such carryforwards expire in 2006 through 2022.

NOTE 4 - RECENTLY ISSUED ACCOUNTING STANDARDS

No recently issued accounting standards have been proposed or adopted that are anticipated to have a material effect.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Special Cautionary Notice Regarding Forward-Looking Statements.

This Report on Form 10-QSB contains various forward-looking statements. Forward-looking statements are indicated by such terms as "expects", "plans", "anticipates", and words to similar effect. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Important factors ("Cautionary Statements") that could cause the actual results, performance or achievements of the Company to differ materially from the Company's expectations are disclosed in this Report on Form 10-QSB. All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by the Cautionary Statements.

Results of operations

During the three months and nine months ended May 31, 2004 the Company's revenues were \$1,230,643 and \$3,685,443, respectively, all of which were generated by its wholly-owned subsidiary, Employment Solutions, Inc. (which

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we refer to as "Employment Solutions"). Employment Solutions operates from an office facility in Greenwood, South Carolina. Revenues generated during the three and nine months ended May 31, 2003 were \$1,277,132 and \$3,965,220, respectively. The decrease in revenues during the three and nine months ended May 31, 2004 as compared to the similar periods of fiscal year 2003 can be attributed to a decrease in the number of workers provided. The decrease in average number of workers of 8% during the nine months ended May 31, 2004 as compared to the nine months ended May 31, 2003 accounts for a 10% decrease in hours worked. This decrease resulted from reduced demand for Employment Solutions' services from existing customers. The Company believes that this reduction in demand is associated with relatively high unemployment levels in the areas served by Employment Solutions (compared to unemployment levels in recent years), which increases the availability of alternatives to the services provided by Employment Solutions. The number of workers employed is determined on a daily basis based on requests from the customers of Employment Solutions. Unless unemployment levels are reduced in the areas served by the Company, the Company expects reduced demand for its services to continue, which will continue to adversely affect the Company's revenues and income from operations.

Employment Solutions incurred cost of services during the three and nine months ended May 31, 2004 of \$1,025,957 and \$3,057,736, respectively. Cost of services during the three and nine months ended May 31, 2003 were \$1,039,860 and \$3,210,512, respectively. These costs include wages paid directly to the workers, payroll taxes, workers compensation insurance and other costs directly associated with employment of the workers. The decrease in cost of services during the three and nine months ended May 31, 2004 as compared to the similar period of fiscal year 2003 can be attributed to a decrease in number of workers provided and hours worked.

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Selling, general and administrative expenses during the three and nine months ended May 31, 2004 were \$190,196 and \$629,279, respectively, as compared to \$203,020 and \$657,448, respectively, during the three and nine months ended May 31, 2003. The table below sets forth the breakdown of these expenses.

	3 MONTHS ENDED MAY 31, 2004	9 MONTHS ENDED MAY 31, 2004	3 E MAY
	-----	-----	-----
Exclusive of Employment Solutions Operations			
Salaries & Related Costs	\$82,628	\$250,383	
Legal, Accting & Shareholder-Related Expense	9,208	61,743	
Rent	8,925	26,775	
Other Administrative Expense	11,918	40,204	
Employment Solutions Expenses			
Selling & Administrative Expense	45,237	153,334	
Amortization of Customer-Related Intangibles	32,280	96,840	
	-----	-----	-----
Total	\$190,196	\$629,279	=====
	=====	=====	=====

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Interest expense incurred during the nine months ended May 31, 2004 was \$106,600 as compared to \$112,856 during the nine months ended May 31, 2003. The reduction in interest expense results from monthly principal reductions of the note payable to Eadon Solutions, LLC. Interest expense includes interest accrued but not paid during the nine months of \$75,191 on the notes payable to Buck A. Mickel, Charles C. Mickel and Minor M. Shaw in the aggregate principal amount of \$1,510,000.

Critical Accounting Policy -- Income taxes

The Company has adopted various accounting policies which govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. The significant accounting policies of the company are described in the footnotes to the consolidated financial statements at August 31, 2003 contained in the Company's Annual Report on Form 10-KSB for the year ended on such date.

Certain accounting policies involve significant judgments and assumptions by management which have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates which could have a material impact on the carrying values of assets and liabilities and the results of operations of our company.

The Company believes that the valuation allowance related to the deferred tax asset is a critical accounting policy that requires the most significant judgments and estimates used in preparation of our consolidated financial statements. When income and expenses are recognized in different periods for financial reporting purposes than for purposes of computing income taxes currently payable, deferred tax assets or liabilities are provided on such temporary differences. The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under SFAS No. 109, deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the consolidated financial statements or tax return. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

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At August 31, 2003, the Company had net operating loss carryforwards ("NOLs") available for income tax purposes of approximately \$12,731,000. Such carryforwards expire in 2006 through 2022. The Company's ability to use its existing NOLs may be jeopardized or lost if the Company undergoes an "ownership change" as defined by the Internal Revenue Code. Under SFAS No. 109, the Company can record a net deferred tax asset on its balance sheet and a net deferred tax benefit on its income statement related to its NOLs if it believes that it is more likely than not that it will be able to utilize its NOLs to offset future taxable income utilizing certain criteria required by SFAS No. 109. If the Company does not believe, based on the balance of the evidence, that it is more likely than not that it can fully utilize its NOLs, it must reduce its deferred tax asset to the amount that is expected to be realized through future realization of profits.

Because the Company did not have net income in fiscal 2003 and 2002, the Company determined that it was more likely than not that it would not be

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able to realize all of the deferred tax benefits prior to the expiration of the related NOL's and that the Company would not carry any net deferred tax asset on its balance sheets for August 31, 2003 or record any net deferred tax benefit on its income statements for the years ended on such dates. If the Company had been permitted under SFAS No. 109 to record a full net deferred tax asset on its balance sheet at August 31, 2003, the amount of the net deferred tax asset that would have been recorded was \$4,765,000, and if the Company had not recorded a valuation allowance the Company would have recorded a net deferred tax benefit of \$4,000 on its income statement for the year ended August 31, 2003.

The analysis of available evidence is performed on an ongoing basis. Adjustments to the valuation allowance are made accordingly. Were the Company to become profitable before its NOLs expire or are otherwise lost, it would be able to utilize them to offset future taxable income, reducing its income tax expense and increasing its net earnings, and the Company would be able to record a net deferred tax asset on its balance sheet. There can be no assurance that the Company will become profitable or that it will be able to utilize any of its NOLs.

Liquidity and Capital Resources

At May 31, 2004, the Company's total liabilities exceeded its assets by \$301,653 as compared to \$193,556 at August 31, 2003. The Company's cash balances decreased from \$233,055 at August 31, 2003 to \$115,533 at May 31, 2004, a decrease of \$117,522. The decrease in cash includes cash used by an increase in accounts receivable of \$33,277 and an increase in prepaid expenses of \$30,749. All accounts receivable at May 31, 2004 were collected subsequent to May 31, 2004. The increase in prepaid expenses primarily consist of a premium paid on the Company's workers compensation insurance policy that will be amortized over the policy period that expires on September 30, 2004. The Company's working capital (current assets less current liabilities) decreased \$48,290 during the nine months ended May 31, 2004 to \$23,661.

The Company is dependent upon the cash generated by Employment Solutions, Inc. to meet its cash liquidity requirements. Please refer to the discussion of the decrease in revenues under "Results of operations".

Buck A. Mickel, Charles C. Mickel and Minor M. Shaw (and, before March 25, 2004, Minor H. Mickel), the creditors of notes payable aggregating \$1,200,000, have permitted the deferral of payment of interest since the notes issuance. Buck A. Mickel is the President and Chief Executive Officer and a director of the Company. Charles C. Mickel is a Vice President and director of the Company. Buck A. Mickel, Charles C. Mickel and Minor M. Shaw are siblings. Since November 2003, these creditors have permitted the deferral of payment of interest under the other notes payable held by them, in the aggregate principal amount of \$310,000. These creditors have agreed that they will not require payment of interest in the next twelve months. Management of the Company could decide at any time to pay all or part of the accrued interest if they determine that cash balances are sufficient to pay the interest without a detrimental effect on the future operations of the Company.

Subject to the continued deferral of payment of interest on the \$1,510,000 in aggregate principal amount of notes payable to Buck A. Mickel, Charles C. Mickel and Minor M. Shaw, the Company expects that its existing cash balances and cash generated by the operations of Employment Solutions will be sufficient to fund its cash requirements during the next twelve months, though

the deferral of payment of interest on these notes and the continued amortization of intangibles are expected to cause negative shareholders' equity

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to continue to increase unless results of operations improve substantially. If the Company is able to continue to defer the payment of interest on these notes and if business conditions do not worsen, the Company expects its existing cash balances and cash generated by operations to be similarly sufficient to fund its cash requirements beyond the next twelve months; however, results of operations will have to improve substantially, or the Company will have to obtain capital from other sources, in order to be able to pay off the \$1,510,000 principal plus the accrued interest on the Mickel notes at maturity, which become due in 2006 and 2007. There can be no assurance that results of operations will improve substantially or that alternative sources of capital will be available at such times.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no material off-balance sheet arrangements.

Item 3. Controls and procedures.

Our disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer has evaluated the effectiveness of our disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-15(e) and 240.15d-15(e)) as of May 31, 2004, and based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that such controls and procedures were effective as of May 31, 2004.

There were no changes in our internal controls over financial reporting that occurred during the three months ended May 31, 2004 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II. Other information

ITEM 1. LEGAL PROCEEDINGS*

ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES*

ITEM 3. DEFAULTS UPON SENIOR SECURITIES*

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

ITEM 5. OTHER INFORMATION*

*Items 1, 2, 3, 4 and 5 are not presented as they are not applicable or the information required thereunder is substantially the same as information

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previously reported.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Listing of Exhibit

31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the fiscal quarter ended May 31, 2004.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RSI HOLDINGS, INC.

July 13, 2004

(Date)

/s/ Joe F. Ogburn

Joe F. Ogburn,
Treasurer and Chief
Financial Officer
(Principal Accounting Officer)

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