RSI HOLDINGS INC
Form 10QSB
January 12, 2004

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

FORM 10 - QSB

(MARK ONE)

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

For the Quarterly Period Ended November 30, 2003 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 incorporation or organization)	(I.R.S. Employer 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 [X] 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 January 7, 2004

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

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RSI HOLDINGS, INC.

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SIGNATURES

RSI HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
NOVEMBER 30, 2003

Assets	
Current Assets	
Cash	$ 163,628
Accounts receivable	85,125

Prepaid expenses and other	78,541
Total current assets	327,294
Property and equipment	
Cost	134,517
Less accumulated depreciation	53,245
Property and equipment - net	81,272
Other assets:	
Customer related intangible assets, net of amortization of $225,452	1,710,837
	$2,119,403
Liabilities and Shareholders' Deficit	
Current liabilities	
Accounts payable	$ 59,703
Accrued expenses	40,556
Curent maturities of long-term debt	161,610
Total current liabilities	261,869
Long-term debt and other liabilities	
Lont-term debt	1,920,984
Accrued interest	150,510
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	(5,244,165)
Total shareholders' deficit	(213,960)
	$2,119,403

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

RSI HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2003 AND 2002

	For the Three months Ended November 30 2003	For the Three mont Ended November 2002
Revenues from services	$ 1,249,429	$1,422,5
Cost of services	1,019,767	1,142,0
Gross profit	229,662	280,5
Expenses:		
Selling, general and administrative	214,073	197,6
Income from operations	15,589	82,8
Other income (expense):		
Interest income and other	34	5
Interest expense	(36,027)	(37,9
Total other income (expense)	(35,993)	(37,4
Income (loss) before income taxes	$ (20,404)	$ 45,4
Income tax expense	-	
Net income (loss)	$ (20,404)	$ 45,4
Basic earnings (loss) per share	$0.00	$ 0.
Shares used in computing basic earnings (loss) per share	7,846,455	7,821,4
Diluted earnings (loss) per share	$0.00	$ 0.
Shares used in computing diluted earnings (loss) per share	7,846,455	8,184,4

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

RSI HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2003 AND 2002

	For the Three months Ended November 30 2003	T N
OPERATING ACTIVITIES		
Net income (loss)	$ (20,404)	
Adjustments to reconcile net income (loss) to net cash provided (used by) operating activities:		
Depreciation	5,689	
Amortization	32,280	
Changes in current assets and liabilities	(44,370)	
Net cash provided by (used by) operating activities	(26,805)	
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,716)	
Net cash used by investing activities	(3,716)	
FINANCING ACTIVITIES		
Proceeds from long-term notes payable	-	
Payment of long-term debt and other	(38,906)	
Net cash used by financing activities	(38,906)	
Net increase (decrease) in cash	(69,427)	
CASH, BEGINNING OF PERIOD	233,055	
CASH, END OF PERIOD	$ 163,628	

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

RSI Holdings, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

NATURE OF BUSINESS

Employment Solutions, Inc., a South Carolina corporation ("Employment Solutions"), the Company's only business, is in the business of locating and providing labor to industrial companies.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements at November 30, 2003 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 loss during the three months ended November 30, 2003, the effect of the stock options on the treasury stock method was anti-dilutive for the three months ended November 30, 2003. Under the treasury stock method, the number of shares used in computing diluted earnings per share for the three months ended November 30, 2002 included the incremental shares in which the average market price during the three months ended November 30, 2002 exceeded the exercise price of the option.

NOTE 2 - LONG-TERM DEBT

Long-term debt consists of the following:

Unsecured note payable to Minor H. Mickel with interest payable quarterly at 8.0 percent per year. The unpaid principal balance is due on August 14, 2006.	$ 25
Unsecured note payable to Minor H. Mickel with interest payable annually at 7.0 percent per year. The unpaid principal balance is due on February 14, 2007.	1,20
Unsecured notes payable to Buck A. Mickel, the President and Chief Executive Officer of the Company, and to Charles C. Mickel and Minor M. Shaw in the amount of $20,000 each with interest payable annually at 7.0 percent per year. The unpaid principal balance is due on February 25, 2007.	6
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.	54
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.	2
	2,08
Less current portion	16
	$ 1,9

NOTE 3 - INCOME TAXES

Net deferred income tax benefits have not been recorded and a 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.

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 ended November 30, 2003 the Company's revenues were $1,249,429, all of which were generated by its wholly-owned subsidiary, Employment Solutions. Employment Solutions operates from an office facility in Greenwood, SC. Revenues generated during the three months ended November 30, 2002 were $1,422,578. The decrease in revenues during the three months ended November 30, 2003 can be attributed to a decrease in number of workers employed.

Employment Solutions incurred cost of services of $1,019,767 during the three months ended November 30, 2003. Cost of services during the three months ended November 30, 2002 were $1,142,061. These costs include wages paid directly to the employees, payroll taxes, workers compensation insurance and other costs directly associated with employment of the workers. The decrease in cost of services during the three months ended November 30, 2003 can be attributed to a decrease in number of workers employed.

Selling, general and administrative expenses during the three months ended November 30, 2003 were $214,073 as compared to $197,687 during the three months ended November 30, 2002. These expenses during the three months ended November 30, 2003, exclusive of Employment Solutions operations, included salaries and related costs of $83,154; legal, accounting, and shareholder related expenses of $15,045; rent of $8,925; and other administrative expenses of $18,208. The expenses during the three months ended November 30, 2003 also included selling and administrative expenses incurred by Employment Solutions of $56,461; and the amortization of customer related intangible assets of $32,280. These expenses during the three months ended November 30, 2002, exclusive of Employment Solutions operations, included salaries and related costs of $74,528; legal, accounting, and shareholder related expenses of $11,600; rent of $8,850; and other administrative expenses of $15,796. The expenses during the three months ended November 30, 2002 also included selling and administrative expenses incurred by Employment Solutions of $54,767; and the amortization of customer related intangible assets of $32,146.

Interest expense incurred during the three months ended November 30, 2003 was $36,027 as compared to $37,933 during the three months ended November 30, 2002.

Income taxes

The consolidated financial statements have been prepared on the accrual basis. 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.

During the three months ended November 30, 2003 and 2002, net deferred tax benefits were not recorded relating to temporary differences since the Company believes that it is more likely than not that the realization of the deferred tax assets will not be realized. Management continues to assess the likelihood of the future realization of the deferred tax assets on a quarterly basis.

Liquidity and Capital Resources

At November 30, 2003, the Company's total liabilities exceeded its assets by $213,960 as compared to $193,556 at August 31, 2003. The Company anticipates that its cash balances and cash generated by the operations of Employment Solutions will be sufficient to fund its cash requirements during the next twelve months. The Company's working capital decreased $6,526 during the three months ended November 30, 2003.

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, 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-15d--15(e)) as of November 30, 2003, and based on such evaluation, our Chief Executive Officer and Chief Executive Officer concluded that such controls and procedures were effective as of November 30, 2003.

There were no significant changes in our internal controls over financial reporting that occurred during the three months ended November 30, 2003 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. Other information

ITEM 1. LEGAL PROCEEDINGS*

ITEM 2. CHANGES IN 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 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 November 30, 2003.

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.

January 12, 2004
(Date)

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

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