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RSI HOLDINGS INC
Form 10QSB
January 14, 2005

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 November 30, 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
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 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,
2005

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

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RSI HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
NOVEMBER 30, 2004

Assets
Current Assets

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Cash	\$ 141,079
Accounts receivable	117,561
Prepaid expenses and other	156,848

Total current assets	415,488
Property and equipment	
Cost	80,244
Less accumulated depreciation	51,167

Property and equipment - net	29,077
Other assets:	
Customer related intangible assets, net of amortization of \$354,571	1,581,718

	\$2,026,283
	=====
Liabilities and Shareholders' Deficit	
Current liabilities	
Accounts payable	\$ 153,702
Accrued expenses	331,942
Current maturities of long-term debt	166,748

Total current liabilities	652,392
Long-term debt	1,732,971
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	(5,389,285)

Total shareholders' deficit	(359,080)

	\$2,026,283
	=====

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 MONTHS ENDED NOVEMBER 30, 2004 AND 2003

	For the Three months Ended November 30 2004 -----	For t Three mo Three mo Ended November 2003 -----
Revenues from services	\$ 1,399,125	\$1,249,
Cost of services	1,184,209 -----	1,019,
Gross profit	214,916	229,
Expenses:		
Selling, general and administrative	208,734 -----	214,
Income from operations	6,182	15,
Other income (expense):		
Interest income and other	345	
Interest expense	(33,928) -----	(36,
Total other income (expense)	(33,583) -----	(35,
Income (loss) before income taxes	\$ (27,401)	\$ (20,
Income tax expense	-	
Net income (loss)	\$ (27,401) =====	\$ (20, =====
Basic earnings (loss) per share	\$0.00 =====	\$0 =====
Shares used in computing basic earnings (loss) per share	7,846,455 =====	7,821, =====
Diluted earnings (loss) per share	\$0.00 =====	\$0 =====
Shares used in computing diluted earnings (loss) per share	7,846,455 =====	7,846, =====

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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 THREE MONTHS ENDED NOVEMBER 30, 2004 AND 2003

	For the Three months Ended November 30 2004 -----	For th Three mon Ended November 2003 -----
OPERATING ACTIVITIES		
Net loss	\$ (27,401)	\$ (20,4
Adjustments to reconcile net loss to net cash (used for) operating activities:		
Depreciation	3,109	5,6
Amortization	32,280	32,2
Changes in current assets and liabilities	(9,298)	(44,3
	-----	-----
Net cash (used for) operating activities	(1,310)	(26,8
INVESTING ACTIVITIES		
Purchase of property and equipment	-	(3,7
	-----	-----
Net cash (used for) investing activities	-	(3,7
FINANCING ACTIVITIES		
Payment of long-term debt	(40,151)	(38,9
	-----	-----
Net cash (used for) financing activities	(40,151)	(38,9
	-----	-----
Net (decrease) in cash	(41,461)	(69,4
CASH, BEGINNING OF PERIOD	182,540	233,0
	-----	-----
CASH, END OF PERIOD	\$ 141,079 =====	\$ 163,6 =====

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 November 30, 2004 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information that apply to established operating enterprises on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, 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, 2004.

As shown in the financial statements during the three months ended November 30, 2004 the Company incurred a loss of \$27,401. At November 30, 2004, the Company's liabilities exceeded its assets by \$359,080 and it had a working capital deficit of \$236,904. These conditions raise substantial doubt about the Company's ability to continue as a going concern. In the Company's annual report on Form 10-KSB, the Company's report included going concern disclosures.

In the Offer to Purchase filed with the SEC by the Mickel siblings (which is described in more detail in the Company's Form 10-KSB for the fiscal year ended August 31, 2004 in "Note 11 - Subsequent Event" to the Consolidated Financial Statements), the Mickel siblings indicated that they do not intend to continue to support the Company financially, including advancing any future funds or extending their deferral of interest payments beyond July 2005, unless the Company becomes a private company through a going-private transaction. The Mickel siblings expect the Company to become a private company before July 2005;

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however, if the Company does not become a private company and the Mickel siblings demand payment of the unpaid accrued interest the Company would in all likelihood not be able to pay the previously deferred interest and be able to continue operations. Accordingly, the Company has classified the unpaid accrued interest as a current liability.

Management of the Company believes that it is highly likely that the Company will be a private company prior to July 2005 and that the Mickel siblings will not demand payment with respect to the Company notes they hold.

There are no assurances that the Company will be a private company prior to July 2005 or that the Mickel siblings will not demand payment with respect to the Company notes they hold. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

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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, 2004 and 2003, the effect of the stock options on the treasury stock method was anti-dilutive for the three months ended November 30, 2004 and 2003.

Note 2 - Long-term debt

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.	\$ 250,0
Unsecured notes payable to Buck A. Mickel, Charles C. Mickel and Minor M. Shaw in the amount of \$400,000 each with interest payable annually at 7.0 percent per year. The unpaid principal balance is due on February 14, 2007.	1,200,0
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.	60,0
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.	389,7
	1,899,7
Less current portion	166,7
	\$ 1,732,

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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.

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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 2024.

Note 4 - Recently issued accounting standards

Additional accounting standards that have been issued or proposed by the FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

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Item 2. Management's Discussion and Analysis or Plan of Operation

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",

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"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.

Going concern

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America that apply to established operating enterprises on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements during the three months ended November 30, 2004, the Company incurred a loss of \$27,401. At November 30, 2004, the Company's liabilities exceeded its assets by \$359,080 and it had a working capital deficit of \$236,904. The outstanding unpaid interest that has been deferred at November 30, 2004 was \$258,735. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

In the Offer to Purchase filed with the SEC by the Mickel siblings (which is described in more detail in the Company's Form 10-KSB for the fiscal year ended August 31, 2004 in the section entitled "Description of Business - Subsequent Event"), the Mickel siblings indicated that they do not intend to continue to support the Company financially, including advancing any future funds or extending their deferral of interest payments beyond July 2005, unless the Company becomes a private company through a going-private transaction. The Mickel siblings expect the Company to become a private company before July 2005; however, if the Company does not become a private company and the Mickel siblings demand payment of the unpaid accrued interest the Company would in all likelihood not be able to pay the previously deferred interest and be able to continue operations. Accordingly, the Company has classified the unpaid accrued interest as a current liability.

Management of the Company believes that it is highly likely that the Company will be a private company prior to July 2005 and that the Mickel siblings will not demand payment of previously deferred interest with respect to the Company notes they hold.

There are no assurances that the Company will be a private company prior to July 2005 or that the Mickel siblings will not demand payment with respect to the Company notes they hold. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Results of operations

During the three months ended November 30, 2004 the Company's revenues were \$1,399,125, 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, 2003 were \$1,249,429. The increase in revenues during the three months ended

November 30, 2004 can be attributed to an increase in number of workers employed.

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Employment Solutions incurred cost of services of \$1,184,209 during the three months ended November 30, 2004. Cost of services during the three months ended November 30, 2003 were \$1,019,767. 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 increase in cost of services during the three months ended November 30, 2004 can be attributed to an increase in number of workers employed and also increases in the hourly rate of pay that is paid to certain employees. These increases in the hourly rate of pay generally did not result in increases in billings to the Company's customers.

Selling, general and administrative expenses during the three months ended November 30 2004 were \$208,734 as compared to \$214,073 during the three months ended November 30, 2003. The table below sets forth the breakdown of these expenses.

	Three Months Ended November 30, 2004	Three Months Ended November 30, 2003
	-----	-----
Exclusive of Employment Solutions Operations		
Salaries & Related Costs	\$82,194	\$83,154
Legal, Accounting & Shareholder-Related Expense	14,804	15,045
Rent	8,925	8,925
Other Administrative Expense	25,594	18,208
Employment Solutions Expenses		
Selling & Administrative Expense	44,937	56,461
Amortization of Customer-Related Intangibles	32,280	32,280
	-----	-----
Total	\$208,734	\$214,073
	=====	=====

Interest expense incurred during the three months ended November 30, 2004 was \$33,928 as compared to \$36,027 during the three months ended November 30, 2003. The reduction in interest expense results primarily from monthly principal reductions of the note payable to Eadon Solutions, LLC. Interest expense for the three months ended November 30, 2004 includes interest accrued but not paid during the three months of \$26,902 on the notes payable to Buck A. Mickel, Charles C. Mickel and Minor M. Shaw in the aggregate principal amount of \$1,510,000.

Liquidity and Capital Resources

At November 30, 2004, the Company's total liabilities exceeded its assets by \$359,080 as compared to \$331,679 at August 31, 2004. 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 also have permitted the deferral of payment of interest under the other notes payable held by them in the aggregate principal amount of \$310,000.

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In the Offer to Purchase filed with the SEC by the Mickel siblings (described in more detail in the Company's Form 10-KSB for the fiscal year ended August 31, 2004 in the section entitled "Description of Business - Subsequent

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Event"), the Mickel siblings indicated that they do not intend to continue to support the Company financially, including advancing any future funds or extending their deferral of interest payments beyond July 2005, unless the Company becomes a private company through a going-private transaction. Management expects the Company to become a private company before July 2005, and, accordingly does not believe that the Mickel siblings will require payment of interest during the next twelve months. However, if the Company does not become a private company and the Mickel siblings demand payment of the unpaid accrued interest the Company would in all likelihood not be able to pay the previously deferred interest and to continue operations.

Subject to the continued deferral of payment of interest on the \$1,510,000 in aggregate principal amount of notes payable to the Mickel siblings, 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.

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, is processed, summarized and reported within the time periods specified in the rules and forms of the SEC. 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, 2004, and based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that such controls and procedures were effective as of November 30, 2004.

There were no significant changes in our internal controls over financial reporting that occurred during the three months ended November 30, 2004 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. Unregistered Sales of Equity Securities and Use of Proceeds*

Item 3. Defaults Upon Senior Securities*

Item 4. Submission of Matters to a Vote of Security Holders*

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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.

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Item 6. Exhibits

(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

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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.

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January 12, 2005

(Date)

/s/ Joe F. Ogburn

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