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RSI HOLDINGS INC
Form 10QSB
January 14, 2003

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, 2002 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

(State or other jurisdiction of
incorporation or organization)

56-1200363

(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 - 7,821,455 shares outstanding as of January 7,
2003

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

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RSI HOLDINGS, INC.

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SIGNATURES

CERTIFICATIONS

RSI HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
NOVEMBER 30, 2002

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Assets	
Current Assets	
Cash	\$ 234,368
Accounts receivable	78,734
Prepaid expenses and other	22,143

Total current assets	335,245
Property and equipment	
Cost	129,968
Less accumulated depreciation	30,077

Property and equipment - net	99,891
Other assets:	
Customer related intangible assets, net of amortization of \$96,438	1,832,332

	\$ 2,267,468
	=====
Liabilities and Shareholders' Deficit	
Current liabilities	
Accounts payable	\$ 74,410
Accrued expenses	97,309
Curent maturities of long-term debt	152,175

Total current liabilities	323,894
Long-term debt	2,082,594
Commitments and contingencies	
Shareholders' deficit:	
Common Stock, \$.01 par value-authorized 25,000,000 shares, issued and outstanding 7,821,455 shares	78,214
Additional paid-in capital	4,945,491
Deficit	(5,162,725)

Total shareholders' deficit	(139,020)

	\$ 2,267,468
	=====

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

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Revenues from services
Cost of services

Gross profit

Expenses:

Selling, general and administrative

Income (loss) from operations

Other income (expenses):

Interest income and other
Interest expense

Total other income (expense)

Income (loss) before income taxes
Income tax expense

Net income (loss)

Basic earnings (loss) per share

Shares used in computing basic earnings (loss) per share

Diluted earnings (loss) per share

Shares used in computing diluted earnings (loss) per share

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, 2002 AND 2001

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OPERATING ACTIVITIES

Net income (loss)

Adjustments to reconcile net income (loss) to net
cash provided (used by) operating activities:

Depreciation

Amortization

Changes in current assets and liabilities

Net cash provided by (used by) operating activities

INVESTING ACTIVITIES

Purchase of property and equipment

Net cash used by investing activities

FINANCING ACTIVITIES

Proceeds from long-term notes payable

Payment of long-term debt and other

Net cash used by financing activities

Net increase (decrease) in cash

CASH, BEGINNING OF PERIOD

CASH, END OF PERIOD

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

NATURE OF BUSINESS

On March 4, 2002, the Company through a newly-formed, wholly-owned subsidiary, Employment Solutions, Inc., a South Carolina corporation ("Employment Solutions"), acquired substantially all of the assets of Employment Solutions, LLC, a South Carolina limited liability company. 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, 2002 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, 2002.

DEVELOPMENT STAGE

During the three months ended November 30, 2001, the Company devoted substantially all its efforts to locating and establishing a new business, but had no operating business or revenues. As a result, during the three months ended November 30, 2001 the Company reported under those accounting principles that apply to development stage enterprises. Accounting principles generally accepted in the United States of America that apply to established operating enterprises govern the recognition of revenue by a development stage enterprise and determine whether a cost incurred by a development stage enterprise is to be charged to expense when incurred or is to be capitalized or deferred.

Effective with the purchase of Employment Solutions on March 4, 2002 the Company began operations which generated revenues. As a result the Company ceased to report under those standards that apply to a development stage enterprise.

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.

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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. Since the Company incurred a loss during the three months ended November 30, 2001, the effect of the stock options on the treasury stock method was anti-dilutive.

NOTE 2 - LONG-TERM DEBT

Long-term debt consists of the following:

Unsecured note payable to the mother of the President and Chief Executive Officer of the Company with interest payable quarterly at 8.0 percent per year. The unpaid principal balance is due on August 14, 2006.	\$ 250,000
Unsecured note payable to the mother of the President and Chief Executive Officer of the Company with interest payable annually at 7.0 percent per year. The unpaid principal balance is due on February 14, 2007.	1,200,000
Unsecured notes payable to the President and Chief Executive Officer of the Company and his two adult siblings 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.	60,000
Note payable 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.	694,716
Note payable to First Citizens Bank in monthly installments of \$520 including interest at an annual rate of approximately 7.0% through October 24, 2008	30,053

	2,234,769
Less current portion	152,175

	\$ 2,082,594
	=====

NOTE 3 - INCOME TAXES

There is no current or deferred income tax expense for the three months ended November 30, 2002 and 2001. Net deferred tax benefits have not been recorded and a valuation allowance has been recorded relating to temporary differences since the Company is not assured that the resulting additional deferred income tax assets will be realized. The valuation allowance relates primarily to future income tax benefits of net operating loss carryforward.

During the three months ended November 30, 2002, the valuation allowance was reduced by approximately \$17,000.

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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.

Acquisition of business

On March 4, 2002, the Company, through Employment Solutions, its newly-formed, wholly-owned subsidiary, acquired substantially all of the assets of Employment Solutions, LLC, a South Carolina limited liability company. Employment Solutions is in the business of locating and providing labor to industrial companies. Prior to the asset purchase, the Company had not conducted any business since January 31, 2000 other than seeking acquisition opportunities and liquidating the assets of its prior business.

Changes in basis of accounting

As described in Note 1 to its Condensed Consolidated Financial Statements, the Company's financial statements for the three months ended November 30, 2001 were prepared in accordance with disclosure requirements applicable to a development stage entity because the Company had no revenues during the three months ended November 30, 2001.

Effective with the purchase of Employment Solutions on March 4, 2002, the Company began operations which generated revenues. As a result, the Company ceased to report under the standards that apply to a development stage enterprise.

Results of operations

During the three months ended November 30, 2002 the Company's revenues were \$1,422,578 all of which were generated by its wholly-owned subsidiary, Employment Solutions. Employment Solutions operates from an office facility in Greenwood, SC. The Company had no revenues during the three months ended November 30, 2001.

Employment Solutions incurred cost of services of \$1,142,061 during the three months ended November 30, 2002. These costs include wages paid directly to the employees, payroll taxes, workers compensation insurance and other costs directly associated with employment of the workers.

General and administrative expenses were \$197,687 during the three months ended November 30, 2002 as compared to \$57,004 during the three months ended November 30, 2001. These expenses, exclusive of Employment Solutions operations, include 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

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November 30, 2002 also include selling and administrative expenses incurred by Employment Solutions during that period of \$54,767 and the amortization of customer related intangible assets of \$32,146.

Interest expense incurred during the three months ended November 30, 2002 was \$37,933 as compared to \$14,027 during the three months ended November 30, 2001. The increase in interest expense results primarily from interest incurred on borrowings relating to the acquisition of Employment Solutions.

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, 2002, net deferred tax benefits of \$17,000 relating to temporary differences were used to offset the income tax expense on net income. As a result, the valuation allowance was reduced by \$17,000.

Liquidity and Capital Resources

At November 30, 2002, the Company's total liabilities exceeded its assets by \$139,020 as compared to \$184,421 at August 31, 2002. This change resulted from the net income of the Company during the three months ended November 30, 2002.

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.

Item 4. Controls and procedures.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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 that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer,

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as appropriate to allow timely decisions regarding required disclosure.

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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 Exhibits

None

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the fiscal quarter ended November 30, 2002.

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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.

January 14, 2003

/s/ Joe F. Ogburn

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(Date)

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

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CERTIFICATION

I, Buck A. Mickel, the President and Chief Executive Officer of RSI Holdings, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of RSI Holdings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date", and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to

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- record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 14, 2003

/s/ Buck A. Mickel

Buck A. Mickel, President and
Chief Executive Officer

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CERTIFICATION

I, Joe F. Ogburn, the Vice President, Treasurer and Principal Financial Officer of RSI Holdings, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of RSI Holdings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date", and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit

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committee of the registrant's board of directors:

- a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 14, 2003

/s/ Joe F. Ogburn

Joe F. Ogburn, Vice President,
Treasurer, and Principal Financial Officer