RCG COMPANIES INC
Form 10-Q
May 24, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 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 1-8662

RCG COMPANIES INCORPORATED
(Exact name of registrant as specified in its charter)

DELAWARE	23-2265039
(State of Incorporation)	(IRS Employer Identification No.)

6836 MORRISON BOULEVARD
SUITE 200
CHARLOTTE, NC 28211
(704) 366-5054
(Address of registrant's principal executive offices including zip code and telephone number, including area code)

Check whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve 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 |_|

Check whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes |_| No |X|

The number of shares outstanding of the Registrant's common stock ("Common Stock") as of April 12, 2004: 20,407,790

RCG COMPANIES INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS

INFORMATION

PART I. FINANCIAL
INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS:

RCG COMPANIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	March 31, 2004 (Unaudited)
ASSETS	

Cash and cash equivalents	$ 1,965	$
Restricted cash	37,666	
Accounts receivable, net of allowance of doubtful accounts of $237 and $112, respectively	3,661	
Inventory	83	
Investments	466	
Prepaid expenses	7,591	
Total current assets	51,432	
Deferred costs and other assets	523	
Property and equipment, net	1,232	
Net non-current assets of discontinued operations	54	
Goodwill and other intangible assets	25,038	
Total assets	$ 78,279	$

LIABILITIES AND SHAREHOLDERS' EQUITY

Notes payable and other obligations - current portion	$ 2,352	$
Notes payable and amounts due to related parties	750	
Accounts payable and accrued expenses	21,957	
Net current liabilities of discontinued operations	4,867	
Unearned income	39,798	
Total current liabilities	69,724	
Notes payable and other obligations	7,643	
Notes payable and amounts due to related parties	--	
Total liabilities	77,367	
Minority interest	--	
Commitments and Contingencies		
Shareholders' equity:		
Common stock, $.04 par value, 200,000,000 shares authorized, 19,289,004 and 13,948,160 issued, respectively	772	
Additional paid-in capital	121,171	
Accumulated deficit	(120,123)	
Accumulated other comprehensive loss	(276)	
Treasury stock at cost (131,214 shares)	(632)	
Total shareholders' equity	912	
Total liabilities and shareholders' equity	$ 78,279	$

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

RCG COMPANIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended March 31, 2004	2003
Revenue:		
Services	$ 49,235	$ 15,719
Product sales	3,008	1,941
Total revenue	52,243	17,660
Cost of revenue:		
Services	48,431	14,876
Product sales	2,840	1,700
Total cost of revenue	51,271	16,576
Gross profit	972	1,084
Selling, general and administrative expenses - other expenses related to issuance of common stock and warrants	576	--
Selling, general and administrative expenses - other	6,309	1,553
Goodwill impairment	200	--
Depreciation and amortization	287	79
Operating costs and expenses	7,372	1,632
Operating loss	(6,400)	(548)
Interest expense, net	232	48
Gain on investments, net	--	(8)
Loss on disposal of assets	--	25
Other income	--	(4)
Equity in earnings of joint ventures	(9)	(17)
Loss from continuing operations	(6,623)	(592)
Loss from discontinued operations net of minority interest of $0, $280, $314 and $443, respectively	(1,548)	(802)
Net loss	$ (8,171)	$ (1,394)
Basic and diluted net loss per share:		
Loss from continuing operations	$ (0.35)	$ (0.05)
Loss from discontinued operations	(0.08)	(0.06)
Net loss	$ (0.43)	$ (0.11)
Weighted average shares outstanding	18,993,724	12,540,438
Weighted average shares outstanding, assuming dilution	18,993,724	12,540,438

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

RCG COMPANIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN THOUSANDS)

	Nine months ended March 31 2004	2003
Net cash used in operating activities	(3,429)	1,
Cash flows from investing activities:		
Purchase of property and equipment	(229)	(
Sale of investments	--	
Investment in joint ventures	89	
Sale of assets	--	
Cash paid in connection with business acquisitions, net	(240)	(
Net cash provided by (used in) investing activities	(380)	
Cash flows from financing activities:		
Notes payable proceeds	36	1,
Principal debt repayments	(409)	(
Net change in line of credit	316	
Cash raised through LFSI transaction	--	
LFSI private placement sale of common stock	--	
Sale of RCG common stock	5,023	
Net cash provided by financing activities	4,966	1,
Net increase in cash and cash equivalents	1,157	2,
Cash and cash equivalents at beginning of period	808	1,
Cash and cash equivalents at end of period	$ 1,965	$ 4,

Cash paid during the period for:	Nine months ended March 31 2004	2003
Interest	$ 308	$
Income taxes	-	
Non-cash investing and financing activities:		
Common stock issued for acquired business	$ 380	$
Note and Service Agreement Obligation issued for acquired business	9,068	
Fixed assets acquired related to new businesses	644	
Common stock and warrants issued for conversion of debt	768	
Common stock issued for conversion of accounts payable and acrued expenses	112	
Conveyance of RCG's LFSI common stock for services	119	

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

RCG COMPANIES INCORPORATED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The condensed consolidated financial statements are unaudited and include the accounts of RCG Companies Incorporated and its subsidiaries ("RCG" or the "Company"), substantially all of which are wholly-owned (the "Company"), except for Lifestyle Innovations, Inc. ("LFSI") which RCG owns approximately 68%. On November 14, 2003 the Company changed its name from eResource Capital Group, Inc. to RCG Companies Incorporated to better reflect the nature and evolution of the Company's business strategy. All significant intercompany accounts and transactions have been eliminated in consolidation. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by such generally accepted accounting principles for complete financial statements.

In the opinion of the management of the Company, the unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair statement of the results of operations for the interim periods presented, with no material retroactive adjustments. The results of operations for interim periods are not indicative of the results that may be expected for a full year due to the seasonality of the business. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended June 30, 2003 included in the Company's Annual Report on Form 10-KSB.

OPERATIONS AND LIQUIDITY

Certain reclassifications have been made to data from the previous period to conform with the presentation of the current period.

The Company experienced an operating loss from continuing operations of $9,170,000 during the first nine months of fiscal 2004 and used cash from operations of $3,429,000 during the period. The Company's working capital deficit of $18,292,000 is substantially due to accounts payable and accrued expenses of $21,957,000 and unearned income of $39,798,000; these are only partially offset by $37,666,000 of restricted cash and $7,591,000 of prepaid expenses. A substantial portion of these amounts are from the Acquired Businesses (see Note 2) of the travel services business which operate at a higher volume than RCG has experienced historically.

As a result of the integration of these acquired businesses, operating performance and negative working capital, the Company is currently exploring additional sources of liquidity, including debt and equity financing alternatives, to provide additional cash to support operations, working capital and capital expenditure requirements for the next 12 months and to meet the scheduled debt repayments. Additionally, the Company plans on negotiating with its debt holders to extend some or all of this debt. The Company is working diligently to reduce operating costs, including the transfer of the Travel Service hub from Atlanta, Georgia to Orlando, Florida, negotiating with airlines to restructure contracts, upgrading its reservation software to improve customer service and create additional revenue sources, reduce personnel costs, and moving to a new office location.

If (i) we are unable to grow our business or improve our operating cash flows as expected, (ii) we suffer significant losses in our investments or operations, (iii) we are unable to realize adequate proceeds from investments or (iv) we are unsuccessful in extending a substantial portion of the debt repayments, then we will need to secure alternative debt or equity financing to provide us with additional working capital. There can be no assurance that additional financing will be available when needed or, if available, that it will be on terms favorable to the Company and its stockholders. If the Company is not successful in generating sufficient cash flow from operations, or in raising additional capital when required in sufficient amounts and on terms acceptable to the Company, these failures would have a material adverse effect on the Company's

business, results of operations and financial condition. If additional funds are raised through the issuance of equity securities, the percentage ownership of its then current stockholders would be diluted.

SIGNIFICANT ACCOUNTING POLICIES

RESTRICTED CASH

All cash received from customers in advance of flight departure must be deposited into escrow accounts in accordance with Department of Transportation regulations. Withdrawals from such escrow accounts are allowed in order to make required payments to air carriers at least 15 days in advance of departure. Hotels may be paid from escrow after air carriers have been paid. Remaining funds are released from escrow 48 hours after return date. The Company classifies these escrow accounts as restricted cash. All escrow accounts are maintained in one financial institution and balances exceed insurable limits.

UNEARNED INCOME AND REVENUE RECOGNITION

Revenue from the sale of tour packages to either travel agents or directly to passengers is recognized on the departure date of the trip. Direct air and hotel costs, other related direct costs, and commissions associated with the tour package are also recognized on the departure date. Cash received in advance of the departure date is deposited into escrow accounts and recorded as unearned income.

IMPUTED INTEREST

Long-term obligations that do not state an interest rate are discounted to net present value using the Company's estimated incremental borrowing rate. The discount is amortized over the life of the obligation.

STOCK BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of SFAS 148 were effective for fiscal years ending after December 15, 2002. The Company has elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), to account for employee stock options. Under APB 25, no compensation expense is recognized unless the exercise price of the Company's employee stock options is less than the market price of the underlying stock on the date of grant.

The Company's other significant accounting policies are the same as those applied at June 30, 2003 and disclosed in the Company's audited consolidated financial statements and notes thereto for the year ended June 30, 2003, included in the Company's Annual Report on Form 10-KSB.

NOTE 2. ACQUISITIONS

RCG through its wholly-owned subsidiary Flightserv, Inc. ("Flightserv") concluded the acquisition of substantially all of the assets and liabilities of VE Holdings, Inc. ("Vacation Express") and SunTrips, Inc. ("SunTrips") ("the Acquired Companies"), effective October 31, 2003. These acquired companies were integrated into the Company's existing travel services business to form its largest operating segment. The Company had previously provided services to the acquired companies.

The Acquired Companies provide specialized distribution of leisure travel products and services. Vacation Express based in Atlanta, Georgia sells air and hotel packages to Mexico and Caribbean destinations and SunTrips, based in San Jose, California, sells air and hotel packages to Mexico, Dominican Republic, Costa Rica, Hawaii and the Azores out of Oakland, California and/or Denver, Colorado.

In connection with the acquisition the Company issued a $10 million non-interest bearing seven-year promissory note discounted to $5.3 million at 12.00% per annum for imputed interest (the "Promissory Note") from Flightserv secured by certain RCG investment holdings. Additionally, the Acquired Companies entered into a three-year agreement with MyTravel Canada Holidays, Inc. ("MyTravel Canada"), for certain services, including the purchasing of hotel accommodations on an exclusive basis. MyTravel Canada will be paid approximately $4.5 million over three years under this agreement discounted to $3.8 million at 12.00% per annum for imputed interest (the "Service Agreement Obligation").

The acquisition was accounted for under the purchase method of accounting in accordance with Statement of Financial Accounting Standards ("SFAS") No.141 "Business Combinations". The purchase price was allocated to the net assets acquired, including the liabilities assumed as of October 31, 2003, based upon their estimated fair values as of that date with the remainder being recorded as goodwill. The consideration was allocated as follows (in thousands):

Current asste	$25,115
Property and equipment	629
Goodwill	15,588
Other intangible assets	702

Total assets acquired	42,034
Current liabilities	32,646
	$ 9,388

On November 5, 2003, the technology solutions business completed the acquisition of SchoolWorld Software, a Pittsburgh, PA based educational software company. The consideration was allocated as follows (in thousands):

Property and equipment	$ 14
Goodwill and other intangible assets	405
	$ 419

In addition to the above, net funding of $9,000 was paid by the technology solutions business in April 2004 and will be reflected next quarter in Goodwill.

Operations of the acquired businesses are included in the condensed consolidated financial statements from the date of acquisition. The following sets forth pro forma consolidated financial information as if the acquisitions had taken place at the beginning of the periods presented (in thousands, except per share data):

	Three months Ended March 31,		Nine months Ende
	2004	2003	2004
Revenues	$ 52,243	$ 50,089	$ 165,538
Net loss	$ (8,171)	$ (6,427)	$ (24,091)
Basic and diluted loss per share	$ (0.43)	$ (0.51)	$ (1.42)

-8-

The proforma information indicates that the losses for all periods presented would have been significantly higher had the businesses been acquired at the beginning of the periods presented. The additional proforma losses include the months of July through October of 2003 and the nine months of July 2002 to March of 2003. Prior to the dates of acquisition, the acquired companies were significant customers of the travel business segment. The acquisition of the travel businesses was completed to more vertically integrate the travel business segment. It is the belief of management that the acquisition will result in the Company being able to obtain better purchasing power and to increase margins in the segment. Management believes that it will be able to operate the acquired business at a lower cost level and accordingly the losses presented on a proforma basis are not indicative of what they would have been had the Company acquired the business at an earlier date and been able to influence the operating results related thereto.

In connection with the acquisition, the Company paid a premium over the fair value of the assets acquired ("goodwill"). It is management's belief that it will be successful in implementing a strategy to improve operating performance of the travel business segment. Inasmuch as the acquisition was effective October 31, 2003, significant time has not elapsed to indicate whether such plans will be successful. As a result, the Company has not, at March 31, 2004, performed an impairment test with respect to the acquired goodwill. In future periods, the Company will be monitoring the results of the acquisition to determine if its plans are achieved. If the Company is unsuccessful in reversing the losses of the acquired businesses, it could have significant impacts on the company, including but not limited to the recoverability of the carrying amount of goodwill.

NOTE 3. DISCONTINUED OPERATIONS

The Board of Directors authorized the disposition of the Company's investment in LFSI. The Board had earlier determined that RCG would no longer permit any additional funding to this entity. LFSI has tried to execute its business strategies with little success and is currently seeking other alternatives. RCG's management along with its Board is reviewing alternative methods of disposal of its interest in LFSI. Accordingly the operations of LFSI are included in discontinued operations for all periods presented.

NOTE 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consists of the following (in thousands):

	Travel Services	Technology Solutions	Corporate	Tota
Balance at June 30, 2003	$ 939	$ 7,702	$ 1,000	$ 9,
Goodwill impairment	(200)	(1,000)	(1,200)	
Goodwill and other intangible assets acquired during period, net of amortization	16,192	405	--	16,
Balance at March 31, 2004	$ 17,131	$ 7,907	$ --	$ 25,

NOTE 5. NOTES PAYABLE AND OTHER OBLIGATIONS

Notes payable and other obligations consists of the following (tabular amounts in thousands):

	March 31, 2004 (Unaudited)	June 30, 2003
Note payable - due in August 2003 with interest at 10% and		

unsecured (1)	$ --	$ 200
Note payable - due July 27, 2003 and unsecured (2)	200	250
Revolving credit facility - secured by a portion of the accounts receivable of the technology solutions business	590	274
Capital lease obligations at various interest rates due in monthly installments through November 2007	37	5
Capital lease obligation at 8.5% due in monthly installments of $1,007 through November 2005	19	26
Note payable - unsecured and due on demand (3)	--	80
Service agreement obligation - with interest imputed at 12% and unsecured (4)	3,588	--
Note payable - with interest imputed at 12%, secured by certain RCG investment holdings (5)	5,561	--
	9,995	835
Less current maturities, including demand notes	(2,352)	(819)
Long-term portion	$ 7,643	$ 16

(1) The principal and accrued interest on this note payable are convertible to shares of Common Stock at the greater of (i) $1.12 per share or (ii) a 20% discount to the average closing price of the Common Stock for the five days immediately preceding the conversion date. The two debts referred to above, plus accrued interest, were converted into RCG Common Stock on August 21, 2003 in accordance with above terms.

(2) On October 1, 2003 and November 25, 2003, $25,000 each of principal was paid; on April 6, 2004, $30,000 of principal was paid. The Company currently is negotiationg with the debt holder to extend the term or agree on a payment schedule.

(3) RCG repaid in October, 2003.

(4) On October 31, 2003, Flightserv agreed to pay $4.5 million to MyTravel Canada for certain services over a 3 year period beginning 11/1/03.

(5) On October 31, 2003, Flightserv purchased 2 businesses (see Note 2) for a $10 million non-interest bearing 7 year note. Payments commence quarterly beginning June 30, 2004.

NOTE 6. NOTES PAYABLE AND AMOUNTS DUE TO RELATED PARTIES

Notes payable and amounts due to related parties consists of the following (tabular amounts in thousands):

	March 31, 2004 (Unaudited)	June 30, 2003
Notes payable - due in August 2003 with interest imputed at 8% and unsecured (1)	$ --	$ 267
Note payable - $150,000 due December 31, 2003 and $600,000 due December 31, 2004 with interest at 12% and collateralized by certain aviation travel service business assets (2)	750	750

Note payable - unsecured and due on demand (3)	--	5
Other advances	--	73
	750	1,095
Less current maturities, including demand notes	(750)	(495
Long-term portion	$ --	$ 600

(1) The principal and accrued interest on this note payable are convertible to shares of Common Stock at the greater of (i) $1.12 per share or (ii) a 20% discount to the average closing price of the Common Stock for the five days immediately preceding the conversion date. This debt , plus accrued interest, was converted into RCG Common Stock on August 21, 2003 in accordance with above terms.

(2) In connection with this note, the Company issued 71,429 shares of restricted stock and 42,857 warrants to purchase its Common Stock at a price of $2.45 and for a term of three years, both as loan origination fees. This note is convertible into the Company's Common Stock at the option of the debt holder at a per share price of the lesser of $2.10 or a 25% discount to the market. The Company can force the debt holder to convert to stock at $7.00 per share under certain conditions. Discussions have commenced with the debt holder regarding the December 31, 2003 delinquent payment.

(3) RCG repaid in October, 2003.

NOTE 7. COMMON STOCK AND PAID IN CAPITAL

The following table summarizes the Company's stock and paid in capital activity for the nine months ended March 31, 2004 (in thousands, except for share amounts):

	Sh
Balance at June 30, 2003	13,9
Comprehensive loss:	
Net loss September 30, 2003	
Sale of Common Stock at $.25 per share to an accredited investor	2
Sale of Common Stock at $1.12 per share to seven accredited investors	8
Conversion of three debt holders and one creditor	6
Balance at September 30, 2003	15,6
Comprehensive loss:	
Net loss December 31, 2003	

Issuance of 230,000 Common Stock Warrants in consideration of professional services	
Sale of Common Stock at $1.12 per share to four accredited investors	2
Sale of Common Stock and Warrants at $1.60 per unit to ten accredited investors	2,5
Issuance of Common Stock at $2.18 per share for SchoolWorld Software purchase	1

Balance at December 31, 2003	18,5
	====
Comprehensive loss:	
Net loss March 31, 2004	
Sale of Common Stock at $.25 per share to an accredited investor	2
Issuance of 50,000 Common Stock Warrants in consideration for a $2 million credit facility	
Exercise of warrants issued for services at $.50 per share	
Issuance of 440,000 Common Stock Shares in consideration of professional services	4

Balance at March 31, 2004	19,2
	====

Balance at June 30, 2003	
	===
Comprehensive loss:	
Net loss September 30, 2003	
Sale of Common Stock at $.25 per share to an accredited investor	
Sale of Common Stock at $1.12 per share to seven accredited investors	
Conversion of three debt holders and one creditor	

Balance at September 30, 2003	
	===
Comprehensive loss:	
Net loss December 31, 2003	
Issuance of 230,000 Common Stock Warrants in consideration of professional services	
Sale of Common Stock at $1.12 per share to four accredited investors	
Sale of Common Stock and Warrants at $1.60 per unit to ten accredited investors	
Issuance of Common Stock at $2.18 per share for SchoolWorld Software purchase	

Balance at December 31, 2003	
	===
Comprehensive loss:	
Net loss March 31, 2004	
Sale of Common Stock at $.25 per share to an accredited investor	
Issuance of 50,000 Common Stock Warrants in consideration for a $2 million credit facility	
Exercise of warrants issued for services at $.50 per share	
Issuance of 440,000 Common Stock Shares in consideration of professional services	

Balance at March 31, 2004	
	===

	Acc T
Balance at June 30, 2003	$
Comprehensive loss:	
Net loss September 30, 2003	
Sale of Common Stock at $.25 per share to an accredited investor	
Sale of Common Stock at $1.12 per share to seven accredited investors	
Conversion of three debt holders and one creditor	
Balance at September 30, 2003	$
Comprehensive loss:	
Net loss December 31, 2003	
Issuance of 230,000 Common Stock Warrants in consideration of professional services	
Sale of Common Stock at $1.12 per share to four accredited investors	
Sale of Common Stock and Warrants at $1.60 per unit to ten accredited investors	
Issuance of Common Stock at $2.18 per share for SchoolWorld Software purchase	
Balance at December 31, 2003	$
Comprehensive loss:	
Net loss March 31, 2004	
Sale of Common Stock at $.25 per share to an accredited investor	
Issuance of 50,000 Common Stock Warrants in consideration for a $2 million credit facility	
Exercise of warrants issued for services at $.50 per share	
Issuance of 440,000 Common Stock Shares in consideration of professional services	
Balance at March 31, 2004	$

NOTE 8. STOCK OPTIONS AND WARRANTS

The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting For Stock Issued To Employees" and options and warrants issued to non-employees under SFAS No. 123, "Accounting For Stock Based Compensation". For the options and warrants issued to non-employees, the fair value of each award has been calculated using the Black-Scholes Model in accordance with SFAS No. 123.

-11-

During the quarter ending March 31, 2004, the Company issued 130,000 common stock options to employees and a director at exercise prices ranging from $1.84 to $1.90. The options vest in a range of six months to three years. Using the Black-Scholes Model, the value of these stock options was calculated to be $129,000.

The Company's pro forma net loss and net loss per share assuming compensation cost was determined under SFAS No. 123 for all options would have been the following (in thousands, except per share amounts):

	For the three months ended March 31, 2004	2003
Net loss, as reported	$ (8,171)	$ (1,394)
Stock-based employee compensation credit included in reported net loss	--	468
	(8,171)	(926)
Deduct: Total stock-based compensation expense determined under FAS 123 for all awards	(73)	(1,450)
Pro forma net loss	$ (8,244)	$ (2,376)
Earnings per share:		
Basic and diluted loss per share, as reported	$ (0.43)	$ (0.11)
Basic and diluted loss per share, pro forma	$ (0.43)	$ (0.19)

The above items are presented net of minority interest.

During the quarter ending March 31, 2004, the Company issued 50,000 common stock warrants at an exercise price of $2.44 to a private investment group in consideration for a $2 million credit facility. The warrants were issued on March 1, 2004 and expire in three years. Using the Black-Scholes Model, the value of these warrants was calculated to be $35,000 and was expensed during the quarter.

NOTE 9. RELATED PARTY TRANSACTIONS

During fiscal 2002, Mr. Pruitt, President and CEO of the Company, pledged certain of his personal assets to secure a $100,000 bank line of credit for LFSI. Mr. Pruitt repaid the $100,000 due on the line of credit with personal funds on August 8, 2003 in exchange for a note from LFSI. The note bears interest at 8% per annum and is due on demand.

In addition to this note, LFSI owed Mr. Pruitt, as of March 31, 2004, $19,000, This amount is the result of loans made to LFSI by Mr. Pruitt in fiscal years 2003 and 2004. As of March 31, 2004, outstanding accrued interest on these obligations was $12,000.

Mr. Pruitt owns 15% of another company that is an LFSI franchisee in the state of Maryland. The franchise location in Maryland owed the Company and its subsidiaries $34,000 at March 31, 2004.

The preceding amounts mentioned for Mr. Pruitt are all included in net current liabilities of discontinued operations on the Company's Consolidated Balance Sheet.

During fiscal year 2002, Mr. Pruitt loaned money to the Company. The note in the amount of $5,000 was repaid on October 2, 2003.

Mr. G. David Gordon, a Company Stockholder, has an ownership interest in ten of the Company's franchises. Mr. Gordon has an ownership interest in the three markets in South Carolina along with Mr. Pruitt, as discussed above need to verify; three locations in the Dallas market along with Paul B. Johnson, President of LFSI; and four additional markets in Houston, Texas; Raleigh, North Carolina; Wilmington, North Carolina; and Greensboro, North Carolina. These four markets had paid the Company and its subsidiaries all amounts owed at March 31, 2004. Mr. Gordon also acts as legal counsel to the Company from time to time.

At March 31, 2004, total debt outstanding to Mr. Gordon, his spouse, and a company in which he is the president and a 65% shareholder, is $1,700,000; this amount is included in notes payable to related parties in the amount of $750,000 and net current liabilities of discontinued operations in the amount of $950,000 on the Company's Consolidated Balance Sheet. The loans, which arose during

fiscal 2002 through fiscal 2004, bear interest at 12%. As of March 31, 2004, outstanding accrued interest on these obligations was $92,000, which is included in net current liabilities of discontinued operations . These debts mature in fiscal 2004 and 2005. The above outstanding debt includes a Note for $750,000 which is convertible into Common Stock of the Company at the lesser of $2.10 per share or a 25% discount to the fair market value of the Company's Common Stock.

Mr. Johnson is an investor in a company, which in November 2001 became a franchisee of LFSI in the Dallas, Texas market and purchased franchises for two additional Dallas, Texas markets during the quarter ended March 31, 2003.

The Dallas franchise locations paid the Company and its subsidiaries all amounts owed at March 31, 2004. In addition, Mr. Johnson was named Chief Executive Officer and a board member of LFSI, which acquired the Company's home technology business in September 2002. Mr. Johnson resigned as a director of the Company effective October 31, 2002 due to his being appointed the CEO of LFSI. Mr. Johnson resigned as CEO and as a board member from LFSI during March 2003 and remained President and Treasurer.

During fiscal 2002, Glenn Barrett resigned as President of Lifestyle Technologies, Inc. and began LVA Technologies LLC ("LVA"), a low voltage wiring business that operates as a Lifestyle franchisee headquartered in Charlotte, NC to serve the commercial market. The Company waived LVA's initial franchise fee for the commercial franchise. LVA also owns the Greenville and Columbia, SC franchises of LFSI. LVA's low voltage wiring business pays royalties on products purchased from LFSI at the same rate as LFSI's other franchisees, however, it does not pay royalties on revenue generated from products purchased elsewhere as required of the Company's other franchisees, including the Greenville and Columbia, SC franchises. LVA and its subsidiaries owed the Company and its subsidiaries $328,000 as of March 31, 2004. This entire amount has been reserved at March 31, 2004.

The Company owns an equity interest in a privately held company in which the executive vice president of the Company's travel services business is a director and shareholder. Avenel Ventures, Inc. owned this equity interest prior to being acquired by the Company in fiscal 2002. The amount is included in investments on the Company's Consolidated Balance Sheet.

The Company's travel services business entered into a one-year public relations contract with a company in which the wife of its President is an employee.

NOTE 10. BUSINESS SEGMENT INFORMATION

Information related to business segments is as follows (in thousands):

* Prior information for the Call Center segment is now incorporated with the Travel Services segment. The Home Technology segment was discontinued during the quarter ended March 31, 2004.

Three months ended March 31, 2004:

	Travel Services	Technology Solutions	Corporate	Total
Revenue	$ 48,876	$ 3,367	$ --	$ 52,243
Loss from continuing operations	(5,133)	(407)	(1,083)	(6,623)
Identifiable assets	67,495	10,290	440	78,225
Capital expenditures	129	63	--	192
Depreciation and amortization	233	50	4	287
Interest expense, net	216	16	--	232

Three months ended March 31, 2003:

	Travel Services	Technology Solutions	Corporate	Total
Revenue	$ 15,514	$ 2,146	$ --	$ 17,660
Loss from continuing operations	(39)	(183)	(370)	(592)
Identifiable assets	6,265	9,554	1,627	17,446
Capital expenditures	10	4	--	14
Depreciation and amortization	25	50	4	79
Interest expense (income), net	27	1	20	48

Nine months ended March 31, 2004:

	Travel Services	Technology Solutions	Corporate	Total
Revenue	$ 100,116	$ 10,121	$ --	$ 110,237
Loss from continuing operations	(5,542)	(574)	(3,054)	(9,170)
Identifiable assets	67,495	10,290	440	78,225
Capital expenditures	148	81	--	229
Depreciation and amortization	373	164	12	549
Interest expense, net	455	59	8	522

Nine months ended March 31, 2003:

	Travel Services	Technology Solutions	Corporate	Total
Revenue	$ 44,315	$ 7,851	$ --	$ 52,166
Income (loss) from continuing operations	687	(287)	(787)	(387)
Identifiable assets	6,265	9,554	1,627	17,446
Capital expenditures	142	67	--	209
Depreciation and amortization	68	171	10	249
Interest expense (income), net	99	(12)	62	149

NOTE 11: SUBSEQUENT EVENT

On April 21, 2004 Robert H. Brooks, Chairman of Hooters of America, Inc., Hooters Air and Pace Airlines, Inc. joined the Company's Board of Directors. Pace Airlines, Inc., a charter airline company, charters planes to the Company's travel services division. In addition, Mr. Brooks made an investment in the Company of $1,000,000 in cash and a waiver of the requirement of delivery of a letter of credit in the amount of $1,000,000 to Pace Airlines. In exchange, the Company issued 1,250,000 restricted shares of Common Stock and a warrant to purchase 1,250,000 restricted shares of Common Stock at an exercise price of $2.44 per share.

During April 2004, the Company issued an additional 50,000 restricted shares of Common Stock and the technology solutions business paid an additional $9,000 related to the SchoolWorld Software purchase (see Note 2).

On May 11, 2004, the Company announced that it had signed a definitive agreement to acquire Response Personnel, Inc., RPI Professional Alternatives, Inc., RPI Services, Inc., Response Medical Staffing of Connecticut, Inc., and Response Medical Staffing of New Jersey, Inc. (collectively, "RPI"). The closing of the transaction is subject to obtaining third-party consents, closing on financing commitments, and other customary closing conditions.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

During the normal course of business, the Company is subject to various lawsuits, which may or may not have merit. Management intends to vigorously pursue and/or defend such suits, as applicable, and believes that they will not result in any material loss to the Company.

The Company's aviation services business is seeking to recover through litigation approximately $70,000 from Southeast Airlines, Inc. related to a fiscal year 2003 charter flight program. Flightfuel, Inc. a joint venture of the Company's travel services business is seeking to recover through litigation approximately $360,000 in unpaid aviation fuel from Southeast Airlines, Inc. In relation to the above, Globe Ground North America is seeking $360,000 from Flightfuel, Inc.

Guarantee Obligation

The Company's Travel Services segment has certain guarantees with an airline provider that agrees to a minimum number of hours during each program year and is required to pay any shortage to the provider. The segment does not anticipate a shortage and accordingly no amount has been accrued.

-15-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

The Company's business, results of operations, and financial condition are subject to many risks. In addition, statements in this report relating to matters that are not historical facts are forward-looking statements based on management's belief and assumptions based on currently available information. Such forward-looking statements include statements relating to estimates of future revenue and operating income, cash flow and liquidity. Words such as "anticipates", "expects", "intends", "believes", "may", "will", "future" or similar expressions are intended to identify certain forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements involve a number of risks and uncertainties, including, but not limited to, those discussed herein or in other documents filed by the Company with the SEC.

Overview

The following table summarizes results of operations for the three and nine months ended March 31, 2004 and 2003 (in thousands):

-16-

	Three Months Ended March 31, 2004		Th
		% of Revenue	
Revenue:			
Services	$ 49,235	94.2%	$
Product sales	3,008	5.8%	
Total revenue	52,243	100.0%	
Cost of revenue:			
Services	48,431	92.7%	
Product sales	2,840	5.4%	
Total cost of revenue	51,271	98.1%	

Gross profit	972	1.9%
Selling, general and administrative expenses - other expenses related to issuance of stock options and warrants	576	1.1%
Selling, general and administrative expenses - other	6,309	12.1%
Goodwill impairment	200	0.4%
Depreciation and amortization	287	0.5%
Operating costs and expenses	7,372	14.1%
Operating loss	(6,400)	-12.3%
Interest expense, net	232	0.4%
Gain on investments, net	--	0.0%
Loss on disposal of assets	--	0.0%
Other income	--	0.0%
Equity in earnings of joint ventures	(9)	0.0%
Loss from continuing operations	(6,623)	-12.7%
Loss from discontinued operations net of minority interest	(1,548)	-3.0%
Net loss	$ (8,171)	-15.6%

	Nine Months Ended March 31, 2004	
		% of Revenue
Revenue:		
Services	$ 100,424	91.1%
Product sales	9,813	8.9%
Total revenue	110,237	100.0%
Cost of revenue:		
Services	96,135	87.2%
Product sales	8,574	7.8%
Total cost of revenue	104,709	95.0%
Gross profit	5,528	5.0%
Selling, general and administrative expenses - other expenses related to issuance of stock options and warrants	773	0.7%
Selling, general and administrative expenses - other	11,891	10.8%
Goodwill impairment	1,200	1.1%
Depreciation and amortization	549	0.5%
Operating costs and expenses	14,413	13.1%

Operating loss	(8,885)	-8.1%	
Interest expense, net	522	0.5%	
Gain on investments, net	(119)	-0.1%	
Loss on disposal of assets	--	0.0%	
Other income	(100)	-0.1%	
Equity in earnings of joint ventures	(18)	0.0%	
Loss from continuing operations	(9,170)	-8.3%	
Loss from discontinued operations net of minority interest	(7,928)	-7.2%	
Net loss	$ (17,098)	-15.5%	$

Nine Month Periods Ended March 31, 2004 and March 31, 2003

Effective October 31, 2003, the Company's travel services subsidiary concluded the acquisition of substantially all of the assets and liabilities, except for certain excluded items, of Vacation Express and SunTrips. Also effective November 5, 2003, the Company's technology solutions subsidiary completed the acquisition of substantially all of the assets and liabilities, except for certain excluded items, of SchoolWorld. Accordingly the operating results of these subsidiaries (the "Acquired Businesses") have been included in the reported results of the Company subsequent to that date. The results of the Company, excluding the results of the Acquired Businesses, are referred to herein as the existing business (the "Existing Business"). Refer to Note 2 to the financial statements for more detail on the specifics of the transactions.

The Company's consolidated revenues for the nine months ended March 31, 2004 were $110,237,000 compared to $52,166,000 in the same period a year ago, an increase of $58,071,000 or 111.3%. The Acquired Businesses accounted for $57,123,000 of the increase of sales in the period ending March 31, 2004. The revenues of the Existing Business increased $948,000 from the same period a year ago.

Gross profit for the nine months ended March 31, 2004 was $5,528,000, compared to $3,694,000 for the same period a year ago, an increase of $1,834,000 or 49.6%. The increase is primarily attributable to the Acquired Businesses. Gross profit, as a percentage of sales declined to 5.0% for the nine months ended

March 31, 2004 from 7.1% for the same period a year ago. Gross margin percentage declined in both the Travel Services and Technology Solutions segments.

In the nine months ended March 31, 2004, the Company reported non-cash expense of $773,000 related to the issuance of common stock and warrants for services. In the nine months ended March 31, 2003, the Company reported non-cash expense of $50,000 related to warrants issued for the settlement of contracts with two service providers.

Selling, general and administrative expenses-other ("SG&A-other") in the nine months ended March 31, 2004 was $11,871,000 compared to $4,238,000 in the comparable period a year ago. The primary reason for the increase is the addition of the SG&A-other of the Acquired Businesses. SG&A-other was 10.8% of revenue in the nine months ended March 31, 2004 compared to 8.1% of revenue in the same period a year ago.

In the nine months ended March 31, 2004, the Company recognized an impairment of goodwill of $1,200,000.

The Company's depreciation and amortization expense in the nine month period ended March 31, 2004 was $549,000 compared to $249,000 in the same period a year ago. The increase is primarily due to fixed asset additions of the Acquired Businesses.

In the nine month period ended March 31, 2004, the Company incurred $522,000 of net interest expense related to its debt portfolio compared to $149,000 in the same period a year ago. The increase in interest expense is primarily due to the new debt related to the Travel Business segment.

In the nine month period ended March 31, 2004, the Company recognized a gain on investments of $119,000 relating to the conveyance of LFSI stock for services. In the nine month period ended March 31, 2003, the Company recorded a net gain on investments of $362,000 of which $208,000 relates to the Company's sale of LFSI stock.

In the nine month period ended March 31, 2004, the Company recorded other income of $100,000 compared to $267,000 of other income in the same period a year ago. The Company's technology solutions business recorded a $100,000 amount to other income related to a prior project in the nine month period ended March 31, 2004. The Company's travel services business received $263,000 in grant proceeds in the nine months ended March 31, 2003 from a government assistance program designed to provide grants to companies whose businesses were directly impacted by the events of September 11, 2001.

In the nine month period ended March 31, 2004, the Company incurred a loss from discontinued operations of $7,928,000 compared to $1,688,000 in the same period a year ago. During the quarter ended March 31, 2004, the Company's Board of Director's authorized the disposition of its investment in LFSI. Accordingly the operations of LFSI are included in discontinued operations for all periods presented.

Three Month Periods Ended March 31, 2004 and March 31, 2003

The Company's consolidated revenues for the quarter ended March 31, 2004 were $52,243,000 compared to $17,660,000 in the same period a year ago. The Acquired Businesses accounted for $34,004,000 of the increase in the period ending March 31, 2004. The revenues of the Existing Business increased $579,000 from the same period a year ago.

Gross profit for the three months ended March 31, 2004 was $972,000, compared to $1,084,000 for the same period a year ago. Gross profit, as a percentage of sales, decreased significantly to 1.9% for the three months ended March 31, 2004 from 6.1% for the same period a year ago. The percentage decline is primarily attributable to the Acquired Businesses of the Travel Segment.

In the three months ended March 31, 2004, the Company reported non-cash expense of $576,000 related to the issuance of warrants for services compared to zero in the comparable period a year ago.

Selling, general and administrative expenses-other ("SG&A-other") in the quarter ended March 31, 2004 was $6,297,000 compared to $1,565,000 in the comparable period a year ago. The primary reason for the increase is the addition of the SG&A-other of the Acquired Businesses. SG&A-other was 12.1% of revenue in the quarter ended March 31, 2004 compared to 8.9% of revenue in the same period a year ago.

The Company's depreciation and amortization expense in the quarter ended March 31, 2004 was $287,000 compared to $79,000 in the same period a year ago. The increase is primarily due to fixed asset additions of the Acquired Businesses.

In the quarter ended March 31, 2004, the Company incurred $232,000 of net interest expense related to its debt portfolio compared to $48,000 in the same period a year ago. The increase in interest expense is primarily due to the new debt related to the Travel Business segment.

In the quarter ended March 31, 2004, the Company did not recognize a gain on investments. In the quarter ended March 31, 2003, the Company recognized a net gain on investments of $8,000 related to a loss on non-cash market adjustments of common stock purchase warrants.

In the three month period ended March 31, 2004, the Company incurred a loss from discontinued operations of $1,548,000 compared to $802,000 in the same period a year ago. During the quarter ended March 31, 2004, the Company's Board of Director's authorized the disposition of its investment in LFSI. Accordingly the operations of LFSI are included in discontinued operations for all periods presented.

Continuing Operations of Business Segments

The following table summarizes results of continuing operations by business segment for the three and nine months ended March 31, 2004 and 2003 (in thousands):

	Three Months Ended March 31, 2004			Three Months Ended March 31, 20		
	Revenue	Gross Profit	Income (Loss)	Revenues	Gross Profit	In (L
Travel Services	$ 48,876	$ 507	$ (5,133)	$ 15,514	$ 769	$
Technology Solutions	3,367	465	(407)	2,146	315	
Corporate	--	--	(1,083)	--	--	
	$ 52,243	$ 972	$ (6,623)	$ 17,660	$ 1,084	$

	Nine Months Ended March 31, 2004			Nine Months Ended March 31, 20		
	Revenue	Gross Profit	Income (Loss)	Revenues	Gross Profit	In (L

Travel Services	$100,116	$ 4,204	$ (5,542)	$ 44,315	$ 2,588	$
Technology Solutions	10,121	1,324	(574)	7,851	1,106	
Corporate	--	--	(3,054)	--	--	
	$110,237	$ 5,528	$ (9,170)	$ 52,166	$ 3,694	$

* Prior information for the Call Center segment is now incorporated with the Travel Services segment. The Home Technology segment was discontinued during the quarter ended March 31, 2004.

Travel Services

The Company's travel services business generated revenues in the third quarter and the first nine months of fiscal year 2004 of $48,876,000 and $100,116,000 compared to $15,514,000 and $44,315,000 in the same periods a year ago. The Acquired Businesses accounted for $33,007,000 and $55,446,000 of the increase in the third quarter and the first nine months of fiscal year 2004, while the Existing Business revenues increased slightly. The Existing Business increase relates to an increase in ad hoc programs.

Gross profit for the Company's travel services business in the third quarter and the first nine months of fiscal year 2004 were $507,000 and $4,204,000 compared to a gross profit of $769,000 and $2,588,000 in the same periods a year ago. The gross profit percentage decreased from 5.0% to 1.0% for the third quarter and from 5.8% to 4.2% for the nine months ended March 31, 2004 when compared to the same periods a year ago. The significant decrease in gross profit percentage was primarily due to the Acquired Business' rising fuel costs and increased competition in key markets resulting in heavily discounted vacation packages.

This business generated losses in the third quarter and the first nine months of fiscal year 2004 of $5,133,000 and $5,542,000 compared with a loss of $39,000 and income of $687,000 in the same periods a year ago. The increase in losses is primarily due to the Acquired Businesses.

Technology Solutions

The Company's technology solutions business generated revenues in the third quarter and the first nine months of fiscal year 2004 of $3,367,000 and $10,121,000 compared to $2,146,000 and $7,851,000 in the same periods a year ago. The Acquired Business accounted for $998,000 and $1,677,000 of the increase in the third quarter and the first nine months of fiscal year 2004. The Existing Business generated an increase in revenues for the nine months ended March 31, 2004 of approximately $592,000 due to an increase in the number of schools serviced and an increase in existing school orders.

Gross profit for the Company's technology solutions business in the third quarter and the first nine months of fiscal year 2004 were $465,000 and $1,324,000 compared to a gross profit of $315,000 and $1,106,000 in the same

periods a year ago. The gross profit percentage declined slightly from 14.1% to 13.1% for the first nine months of fiscal 2004 compared to the same period a year ago. This decrease was due to a lower gross margin on several large orders.

This business generated losses in the third quarter and the first nine months of fiscal year 2004 of $407,000 and $574,000 compared with losses of $183,000 and $287,000 in the same periods a year ago. The increase in losses is primarily from costs incurred integrating the new acquisition as well as interest expense related to a line of credit that was in place for only one month during the nine month period ending March 31, 2003.

Corporate

Corporate incurred losses in the third quarter and the first nine months of fiscal year 2004 of $1,083,000 and $3,054,000 compared with losses of $370,000 and $787,000 in the same periods a year ago. The increase in loss is due primarily to a goodwill impairment of $1,000,000 and increases in insurance, public relations, legal fees, and salaries and benefits as well as a decrease in gain from investments in the current fiscal year as compared to last fiscal year.

Seasonality

The Company experiences significant seasonality in its travel services and technology solutions businesses. The seasonality in the travel services business is due to the higher level of charter travel to Caribbean and Mexican destinations during the vacation season, which coincides with the Company's first and fourth fiscal quarters. The Company's technology solutions business generally experiences higher revenue in the first and fourth fiscal quarters, with the largest amount being recognized in the fourth quarter, due to the fact that the Company's year end coincides with the year end of most schools and universities. These customers are tied to strict budgets and normally purchase more product at the start and the end of their fiscal year.

Guarantee Obligation

The Company's Travel Services segment has certain guarantees with an airline provider that agrees to a minimum number of hours during each program year and is required to pay any shortage to the provider. The segment does not anticipate a shortage and accordingly no amount has been accrued.

Liquidity and Capital Resources

The Company's net loss for the nine months ended March 31, 2004 of $17,098,000, was offset by an increase to shareholders' equity related to the sale of Common Stock and Warrants, with net proceeds of $5,020,000, the issuance of Warrants for legal fees and other services valued at $773,000, the exercise of Warrants for $3,000, the issuance of Company Stock of $380,000 for a business acquisition, and debt and accounts payable conversions totaling $880,000, resulting in a net decrease in shareholders' equity of $10,042,000 for the nine months ended March 31, 2004.

For the nine months ended March 31, 2004, operations used $3,429,000 of cash primarily due to the travel services use of cash in the scheduling of flights. For the nine months ended March 31, 2004, net cash used by investing activities was $380,000 due primarily to business acquisitions. For the nine months ended March 31, 2004, net cash provided by financing activities was $4,966,000 due primarily to the Company receiving $5,023,000 through the sale of the Company's Common Stock. At March 31, 2004, the Company had a working capital deficit of $18,292,000. At March 31, 2004 the Company held cash and cash equivalents of $1,965,000 and investments of $466,000.

The Company experienced an operating loss from continuing operations of $9,170,000 during the first nine months of fiscal 2004. The Company's working capital deficit of $18,292,000 is substantially due to accounts payable and accrued expenses of $21,957,000 and unearned income of $39,798,000; these are only partially offset by $37,666,000 of restricted cash and $7,591,000 of prepaid expenses. A substantial portion of these amounts are from the Acquired Businesses of the travel services segment which operates at higher dollar volume than RCG has experienced historically. The Company is currently exploring

additional sources of liquidity, including debt and equity financing alternatives, to provide additional cash to support operations, working capital and capital expenditure requirements for the next 12 months and to meet the scheduled debt repayments. Additionally, the Company plans on negotiating with its debt holders to extend some or all of this debt. If (i) we are unable to grow our business or improve our operating cash flows as expected, (ii) we suffer significant losses on our investments or operations, (iii) we are unable to realize adequate proceeds from investments or (iv) we are unsuccessful in extending a substantial portion of the debt repayments, then we will need to secure alternative debt or equity financing to provide us with additional working capital. There can be no assurance that additional financing will be available when needed or, if available, that it will be on terms favorable to the Company and its stockholders. If the Company is not successful in generating sufficient cash flow from operations, or in raising additional capital when required in sufficient amounts and on terms acceptable to the Company, these failures would have a material adverse effect on the Company's business, results of operations and financial condition. If additional funds are raised through the issuance of equity securities, the percentage ownership of its then current stockholders would be diluted.

Disclosures About Contractual Obligations and Commercial Commitments

The following table summarizes contractual obligations as of March 31, 2004 (in thousands):

	Total	Prior to March 31, 2005	April 1, 2005 to March 31, 2007	Ap to M
Purchase obligations	$ 49,886	$ 43,411	$ 6,475	$
Long-term notes payable	11,650	--	3,675	
Operating and capital lease obligations	8,107	1,449	2,524	
	$ 69,643	$ 44,860	$ 12,674	$

Critical Accounting Policies

Determination of certain amounts in the Company's financial statements requires the use of estimates. These estimates are based upon the Company's historical experiences combined with management's understanding of current facts and circumstances. Although the estimates are considered reasonable, actual results could differ from the estimates. Discussed below are the accounting policies considered by management to require the most judgment and to be critical in the preparation of the financial statements.

Allowance for Doubtful Accounts - The Company maintains an allowance for customer accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance, historical experience with write-offs and the level of past-due amounts. Changes in these conditions may result in additional allowances. The allowance for doubtful accounts was $237,000 and $112,000 at March 31, 2004 and March 31, 2003, respectively.

Goodwill - Goodwill is tested for impairment annually or more frequently if changes in circumstances or the occurrence of events suggest impairment exists. The test for impairment requires the Company to make several estimates about fair value, most of which are based on projected future cash flows. The estimates associated with the goodwill impairment tests are considered critical due to the judgments required in determining fair value amounts, including projected future cash flows. Changes in these estimates may result in the recognition of an impairment loss.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

None

-22-

ITEM 4. CONTROLS AND PROCEDURES:

Disclosure controls and procedures

The Company has established and currently maintains controls and other procedures designed to ensure that material information required to be disclosed in its reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission. In conjunction with the close of each fiscal quarter, the Company conducts an update and a review and evaluation of the effectiveness of the Company's disclosure controls and procedures. It is the opinion of the Company's principal executive officer and principal accounting officer, based upon an evaluation as of the end of the period, that the Company's disclosure controls and procedures are sufficiently effective to ensure that any material information relating to the Company is recorded, processed, summarized and reported to its principal officers to allow timely decisions regarding required disclosures.

Changes in internal controls

There were no significant changes in the Company's internal accounting processes and control procedures during the quarter.

-23-

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

During the normal course of business, the Company is subject to various lawsuits, which may or may not have merit. Management intends to vigorously pursue and/or defend such suits, as applicable, and believes that they will not result in any material loss to the Company.

The Company's aviation services business is seeking to recover through litigation approximately $70,000 from Southeast Airlines, Inc. related to a fiscal year 2003 charter flight program. Flightfuel, Inc. a joint venture of the Company's travel services business is seeking to recover through litigation approximately $360,000 in unpaid aviation fuel from Southeast Airlines, Inc. In conjunction with the preceding, Globe Ground North America is seeking to recover through litigation approximately $360,000 from Flightfuel, Inc.

ITEM 2. CHANGES IN SECURITIES

	Common Stock Issued and Outstanding
Balance at December 31, 2003	18,593,004
Shares issued for investor relations	440,000
Private placement at $.25 per share to an accredited investor*	250,000
Warrants exercised at $.50 per share	6,000
Balance at March 31, 2004	19,289,004

* Shares issued pursuant to an agreement dated April 2003. As of March 31, 2004, 250,000 shares remain unissued.

The securities issued in connection with the above were issued without registration under the Securities Act in reliance upon Section 4(2) of the Securities Act. The Company based such reliance on representations made to the Company by the recipient of such securities as to such recipient's investment intent and sophistication, among other things.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIY HOLDERS

None

ITEM 5. OTHER INFORMATION

On May 11, 2004, the Company announced it signed a definitive agreement to acquire Response Personnel, Inc., RPI Professional Alternatives, Inc., RPI Services, Inc., Response Medical Staffing of Connecticut, Inc., and Response Medical Staffing of New Jersey, Inc. The closing of the acquisition is subject to third party consents, closing on financial commitments and other customary closing conditions. Included in Item 6 is a copy of the agreement (Exhibit 10.16).

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.16 Stock Purchase Agreement dated as of May 11, 2004 by and among WTI Acquisition, Inc., RCG Companies Incorporated and Stockholders of Response Personnel, Inc. and Affiliates

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Certification of Principal Financial

31.2 Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Financial Reports on Form 8-K and 8-K/A

(i) The Company filed the following reports on Form 8-K and 8-K/A with the Securities and Exchange Commission ("SEC") during the quarter ended March 31, 2004:

(a) on January 9, 2004 filed a report containing financial and pro forma financial information relating to the previously filed Asset Purchase of "Vacation Express" and "Suntrips";

(b) on January 20, 2004 filed a report containing audited financial information relating to the previously filed Asset Purchase of "Vacation Express" and "Suntrips";

(c) on February 9, 2004 filed a report containing a press release relating to the Company's update on its recent acquisition of Vacation Express and Suntrips;

(d) on February 24, 2004 filed a report containing a press release relating to financial results for the three and nine month periods ending December 31 2003;

(e) on February 27, 2004 filed a report dismissing Crisp Hughes Evans LLP as its independent auditors

(f) on March 3, 2004 filed a report amending the report in item (e) in order to add a date; and

(g) on March 23, 2004 filed a report containing a press release relating to the Company's letter of intent to acquire Response Personnel, Inc., RPI Professional Alternatives Inc. and Career Advisors, Inc. (collectively, "Response").

-25-

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RCG Companies Incorporated

Date: May 20, 2004 By: /s/ Michael D. Pruitt

Michael D. Pruitt
President and Chief Executive Officer

(Principal executive officer)

By: /s/ William W. Hodge

William W. Hodge
Chief Financial Officer
(Principal financial officer)

-26-