RCG Companies INC
Form 10-K/A
May 27, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(Amendment No. 2)

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

For the fiscal year ended June 30, 2004 Commission file number 1-8662

RCG Companies Incorporated
(Exact name of registrant as specified in its charter)

DELAWARE	23-2265039
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification

6836 MORRISON BLVD, SUITE 200, CHARLOTTE, NC	28211-2668
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number (704) 366-5054
Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which register
Common Stock, par value, $0.04	American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act: NONE

Indicate by check mark 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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES |X| NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K, Section 229.405 of this chapter, is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive Proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. YES |X| NO [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12 b-2). YES [ ] NO |X|

As of December 31, 2003, which was the last business day of the registrant's most recently completed second quarter, 18,461,790 common shares were outstanding, and the aggregate market value of the common shares (based upon the closing price of these shares on the American Stock Exchange) held by nonaffiliates was approximately $33 million. Shares of Common Stock held,

directly or indirectly, by each director and executive officer of the Company, have been excluded in that such persons are deemed to be affiliated.

Documents Incorporated by Reference - None.

EXPLANATORY NOTE

This amendment on Form 10-K/A (Amendment No. 2) amends the Registrant's annual report on Form 10-K for the fiscal year ended June 30, 2004, as filed with the Securities and Exchange Commission and is being filed primarily to include the report of the accountants that the principal accountant is relying on in accordance with Rule 2-05 of Regulation S-X and other minor typographical and drafting errors. The filing of this Form 10-K/A shall not be deemed an admission that the original filing, when made, included any untrue statement of material fact or omitted to state a material fact necessary to make a statement not misleading. Except as otherwise expressly noted herein, this Form 10-K/A does not reflect events occurring after the October 13, 2004 filing of annual report on Form 10-K for the year ended June 30, 2004 in any way. While this report primarily relates to the historical periods covered, events may have taken place since the original filing that might have been reflected in this report if they had taken place prior to the original filing.

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PART I

"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained in this report, including, without limitation, statements containing the words "believes", "anticipates", "expects" and words of similar import, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: international, national and local general economic and market conditions; the ability of the Company to sustain, manage or forecast its growth; the ability of the Company to successfully make and integrate acquisitions; existing governmental regulations and changes in or the failure to comply with, governmental regulations; adverse publicity; competition; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; and other factors referenced in this report. Certain of these factors are discussed in more detail elsewhere in this report. Given these uncertainties, readers of this report and investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

ITEM 1. BUSINESS

RCG Companies Incorporated and its subsidiaries ("RCG", "We" or the "Company") is a network of travel and technology services companies brought together under one operating company to benefit from synergistic relationships and the infusion of intellectual and capital resources. The Company is engaged in the operation of travel services and technology solutions businesses. Incorporated in 1982, RCG is a Delaware corporation headquartered in Charlotte, North Carolina. The Company's fiscal year ends on June 30.

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. In fiscal year 2001, the Company brought in new executive management and modified its business plan to focus on acquiring and enhancing travel and technology services companies. The Company also brought in new management to its aviation business and completed the acquisition of an aviation services company that, together, have expanded that business into a highly specialized travel organization that delivers a unique turnkey air service. The Company has increased its focus on the travel sector and plans to continue to operate, enhance and acquire substantial interests in the value of expansion phase companies operating in the travel sector.

Through its wholly owned subsidiary, Flightserv, Inc. ("Flightserv"), RCG 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 Flightserv, 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 Mexican and Caribbean destinations. SunTrips, based in San Jose, California, sells air and hotel packages for Mexico, the Dominican Republic, Costa Rica, Hawaii and the Azores. The flights originate in Oakland, California and/or Denver, Colorado.

Logisoft Corp. ("Logisoft"), the Company's technology solutions business, provides integrated products and services to assist customers in meeting their strategic technology initiatives. Our products and services include distribution of third-party-published software titles for the educational market and corporate customers, full-service Internet development, Internet Web site hosting and co-location, and Internet business development services encompassing partner-site management and marketing. In our Internet business development and marketing services business, we generally participate in the development and implementation of the business plan in exchange for revenue-sharing and/or equity-based arrangements.

On November 5, 2003, Logisoft completed the acquisition of SchoolWorld Software, a Pittsburgh, Pennsylvania-based educational software company.

During the third quarter of 2004, the Company's Board of Directors (the "Board") authorized the disposition of the Company's investment in Lifestyle Innovations, Inc. ("LFSI"), a full-service home technology integration company. Accordingly, the operations of LFSI were reclassified to "discontinued operations" for all periods presented. During the fourth quarter, the Company contributed approximately 4 million shares to the treasury of LFSI, a substantial portion of which were reissued to certain LFSI investors to settle certain contingent claims. LFSI also issued other shares, which resulted in RCG's interest in LFSI being reduced to an effective 45.5% beneficial ownership. Considering the substantial reduction in ownership and the lack of control over LFSI, the investment in LFSI is now recorded using the equity method and is no longer a consolidated subsidiary. The change resulted in RCG restoring its negative carrying value during the forth quarter.

FACTORS AFFECTING FUTURE RESULTS AND FORWARD-LOOKING STATEMENTS

The Company's business, results of operations and financial condition are subject to many risks, including those set forth below. The following discussion highlights some of these risks; others are discussed elsewhere herein or in other documents filed with the United States Securities and Exchange Commission ("SEC") by the Company. 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 using currently available information. 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 set forth below.

WE RECEIVED A GOING CONCERN OPINION FROM OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

We received from our independent registered public accounting firm and included in this report an opinion on our consolidated financial statements that raises substantial doubt as to our ability to continue as a going concern as a result of recurring losses from operations and a deficiency in working capital at June 30, 2004.

WE MAY NEED TO RAISE ADDITIONAL FUNDS IN ORDER TO CONTINUE TO OPERATE AND GROW OUR BUSINESS.

If we are unable to grow our business or improve our operating cash flows as expected; if we suffer significant losses on our investments; or if we are unable to realize adequate proceeds from those investments, we will then need to secure alternative equity or debt financing to provide us with additional working capital. However, there can be no assurance that we will be able to complete such financing if required. If we raise funds through debt financing,

then we will incur additional interest expense going forward. If we raise additional funds by issuing additional equity securities, then the percentage ownership of our current stockholders will be diluted. We cannot be certain that additional financing will be available when and to the extent required, or that, if available, it will be on acceptable terms. In addition, our ability to complete future financings may be affected by the market price of our Common Stock. If adequate funds are not available on acceptable terms, then we will be unable to continue to fund our existing businesses or planned expansion, or take other steps necessary to enhance our business or continue our operations.

WE HAVE INCURRED OPERATING LOSSES; THERE CAN BE NO ASSURANCE THAT WE WILL ACHIEVE OR SUSTAIN PROFITABILITY.

We have incurred operating losses since inception. Certain of our other operating businesses have incurred and continue to incur operating losses. We expect to continue to incur significant operating costs in connection with our efforts to expand our existing businesses and to grow through acquisitions. As a result of these costs and uncertain revenue growth, there can be no assurance that we will achieve or sustain profitability.

THE PRICE OF OUR COMMON STOCK HAS BEEN VOLATILE; IF THE MARKET PRICE OF OUR COMMON STOCK DECREASES, STOCKHOLDERS MAY BE UNABLE TO SELL THEIR COMMON SHARES AT A PROFIT.

Both the stock market in general and the market for travel and technology services companies have recently experienced extreme volatility. Similarly, the per-share trading price of our Common Stock during the year ended June 30, 2004, as reported by the American Stock Exchange (the "Exchange"), fluctuated from a high of $3.16 to a low of $0.46. Fluctuations in the price of our Common Stock may occur, among other reasons, in response to:

o Operating results;

o Regulatory changes;

o Economic changes;

o Market valuation of firms in related businesses; and

- General market conditions.

In addition, the volume of shares of our Common Stock bought and sold on any trading day has been subject to wide fluctuations, which also contributes to fluctuations in the trading price of our Common Stock. The trading price of our Common Stock could continue to be subject to wide fluctuations in response to these or other factors, many of which are beyond our control.

WE MAY BE UNABLE TO MAINTAIN OUR LISTING ON THE AMERICAN STOCK EXCHANGE; IF WE ARE DELISTED, THE TRADING OF OUR COMMON STOCK COULD BE MORE DIFFICULT.

Our Common Stock is presently listed and trading on the American Stock Exchange. The Company believes that it meets the standards for continued listing but such a determination is subjective and no assurance can be given that the Exchange will agree or that our Common Stock will be trading on the Exchange at the time that the stockholders are able to sell shares under applicable securities laws. If our Common Stock is delisted from the Exchange, trading in our securities could be more difficult, and trading of our Common Stock could be subject to the "penny-stock" rules.

IF WE CANNOT INTEGRATE OUR RECENT OR FUTURE ACQUISITIONS, WE MAY BE UNABLE TO SUCCESSFULLY EXECUTE OUR STRATEGY.

We anticipate that a portion of our future growth will be accomplished through acquisitions. The success of this plan depends upon our ability to:

- Identify suitable acquisition opportunities;
- Effectively integrate acquired personnel, operations, products and technologies into our organization;
- Retain and motivate the personnel of acquired businesses;
- Retain customers of acquired businesses; and
- Obtain necessary financing on acceptable terms or use our securities as consideration for acquisitions.

Turbulence in financial markets and the current U.S. economy may result in a diminished pool of companies that meet our criteria for acquisition. Even if we are successful in acquiring companies, we may be unable to integrate them into our business model or achieve the expected synergies.

OUR ACQUISITION STRATEGY HAS AND WILL CONTINUE TO DILUTE OUR CURRENT STOCKHOLDERS' OWNERSHIP.

Our acquisition strategy contemplates that we will continue to issue shares of our securities to make strategic acquisitions and attempt to grow our business. Each of the acquisitions that we complete in the future involving the issuance of securities will further dilute our current stockholders' ownership interest in the Company.

WE FACE COMPETITION FROM OTHER ACQUIRORS AND INVESTORS, WHICH MAY PREVENT US FROM REALIZING STRATEGIC OPPORTUNITIES.

We plan to acquire or invest in existing companies to fulfill our business plan.

In pursuing these opportunities, we face competition from other capital providers and operators of companies, including publicly traded companies, venture capital companies and large corporations. Some of these competitors have greater financial, operational and human resources than we do. This competition may limit our opportunity to acquire interests in companies that we believe could help us fulfill our business plan and increase our value.

OUR GROWTH PLACES STRAIN ON OUR MANAGERIAL, OPERATIONAL AND FINANCIAL RESOURCES.

Our growth has placed, and is expected to continue to place, a significant strain on our managerial, operational and financial resources. Further growth will increase this strain on our managerial, operational and financial resources, which may inhibit our ability to successfully implement our business plan.

WE DEPEND ON CERTAIN IMPORTANT EMPLOYEES;
THE LOSS OF ANY OF THOSE EMPLOYEES MAY HARM OUR BUSINESS.

Our performance is substantially dependent on the performance of our Executive Officers and other key employees. The familiarity of these key employees with their respective industries makes those employees especially critical to our success. In addition, our success is dependent on our ability to attract, train, retain and motivate high quality personnel, especially for our management team. The loss of the services of any of our Executive Officers or key employees may harm our business. Our success also depends on our continuing ability to attract, train, retain and motivate other highly qualified technical and managerial personnel. Competition for such personnel is intense and our limited resources are likely to make it more difficult for us to attract and retain such personnel.

WE DEPEND ON CERTAIN AIRLINE CONTRACTS.

The Company's travel services business generally contracts with three carriers for charter tour operator contracts. While this concentration generally reduces the costs of the carrier service, if one or more of these carriers are unable to perform under its contract, our travel services business may experience service interruptions that could reduce its revenue. Additionally, the Company's travel services business may be forced to replace such a carrier, which could result in higher operating costs for the carrier services, thereby reducing profitability.

FUTURE EVENTS SIMILAR TO THOSE OF SEPTEMBER 11, 2001 MAY HAVE AN ADVERSE EFFECT ON OUR BUSINESSES.

The terrorist attack against the United States on September 11, 2001 produced great uncertainty in the economy in general and in the aviation industry in particular. Industry reports indicate that these events are still having a negative impact on the air travel industry. These events may drastically alter the long-term demand for charter services. In addition, these events may lead the Federal Aviation Administration to place additional restrictions on charter flight operators, which may increase the cost of private charter services. The long-term impact of these events on the aviation industry and the chartered services segment of that industry are not known. These events could have a material adverse effect on our travel services business including the operation of our charter hub service through Atlanta, Georgia.

Also, additional terrorist attacks against the United States could produce uncertainty in the financial markets, which could negatively affect economic performance of the United States. These events could also have a material

adverse effect on our businesses.

INCREASES IN FUEL COSTS AFFECT OUR OPERATING COSTS AND COMPETITIVENESS.

Fuel is a major component of our operating expenses. Both the cost and availability of fuel are influenced by many economic and political factors and events occurring in oil producing countries throughout the world, and fuel costs fluctuate widely. Recently, the price per barrel of oil has reached an all-time high; this has significantly impacted our results of operations. Affecting our ability to compete is the fact that we cannot predict the future availability of fuel and its monetary cost to us. The unavailability of adequate fuel supplies could have a material adverse effect on our operations and profitability. In addition, larger airlines may have a competitive advantage because they pay lower prices for fuel. We generally follow industry trends by imposing a fuel surcharge in response to significant fuel price increases. However, our ability to pass on increased fuel costs is limited by economic and competitive conditions.

TRAVEL SERVICES CONTRACTS MAY RESULT IN LOSSES.

The Company actively pursues opportunities to operate scheduled and ad-hoc charter service outside of its two primary travel services contracts with major tour operators, in order to utilize capacity on aircraft that it has under contract. These programs often require the Company to provide such services for a fixed fee or with limited ability to pass along increases in operating costs over the amounts estimated during the bid process. If actual operating costs are higher than forecast, the Company may lose money on such programs and these losses may exceed the operating profit generated on other travel services contracts. Management believes that passenger demand was significantly adversely affected by the war in Iraq, which coincided with the startup of some of the scheduled Interstate Jet service.

GOVERNMENT REGULATION OF THE TRAVEL INDUSTRY COULD IMPACT OUR TRAVEL SERVICES' BUSINESS OPERATIONS.

Certain segments of the travel industry are regulated by the United States Government and, while we are not currently required to be certified or licensed under such regulation, certain services offered by our travel services business are affected by such regulation. Charter flights operators, upon which our travel services business depends, are subject to vigorous and continuous certification requirements by the Federal Aviation Administration. Changes in the regulatory framework for charter aviation travel could adversely affect our travel services business' operations and financial condition.

OUR TRAVEL SERVICES BUSINESS FACES INTENSE COMPETITION FROM THE TRAVEL INDUSTRY.

We provide leisure vacation packages and charter jet travel and face intense competition from commercial airlines for the potential customers who travel to these locations and other locations that we may serve in the future. These commercial airlines have greater resources, marketing efforts and brand equity than we do and they offer a potential customer more flights to these locations. Furthermore, travelers have numerous choices of location when choosing travel destinations. Since we offer only limited travel destinations, we face intense competition from travel agents, commercial airlines, hotels, resorts, casinos and other organizations in the travel industry that offer alternative travel destinations to those offered by us. Such competitors possess far greater capital and human resources, marketing efforts and brand equity than we do. If

we are unable to compete effectively with these various competitors in the travel industry, we may not be able to maintain profitability.

OUR TECHNOLOGY SOLUTIONS BUSINESS GENERALLY DOES NOT HAVE LONG-TERM CONTRACTS.

The clients of our technology solutions business are generally retained on project-by-project basis, rather than pursuant to long-term contracts. As a result, a client may or may not engage us for further services once a project is completed or may unilaterally reduce the scope of, or terminate, existing projects. The absence of long-term contracts creates an uncertain revenue stream, which could negatively affect the financial condition of our technology solutions business.

THE DEVELOPING MARKET FOR STRATEGIC INTERNET SERVICES AND THE LEVEL OF ACCEPTANCE OF THE INTERNET AS A BUSINESS MEDIUM WILL AFFECT OUR TECHNOLOGY SOLUTIONS BUSINESS.

The market for strategic Internet services is relatively new and is evolving rapidly. The future growth of our technology solutions business is dependent upon the ability of such business to provide strategic Internet services that are accepted by existing and future clients. Demand and market acceptance for recently introduced services are subject to a high level of uncertainty. The level of demand and acceptance of strategic Internet services is dependent upon a number of factors, including:

- The growth in consumer access to and acceptance of new interactive technologies such as the Internet;
- Companies adopting Internet-based business models;
- The development of technologies that facilitate two-way communication between companies and targeted audiences;
- The level of capital spending on Internet, technology and communications initiatives; and
- The extent and nature of any domestic or international regulation of e-business or uses of the Internet.

Significant issues concerning the commercial use of these technologies include security, reliability, cost, ease of use and quality of service. These issues remain unresolved and may inhibit the growth of Internet business solutions that utilize these technologies.

Industry analysts and others may have made many predictions concerning the growth of the Internet as a business medium. You should not rely upon these predictions. Recently, the market for strategic Internet services in particular has contracted. If the market for strategic Internet services fails to develop, or develops more slowly than expected, or if the services provided by our technology solutions business do not achieve market acceptance, then revenue and operating results of such business may be volatile and our technology solutions business may be unable to achieve or sustain operating profits.

OUR TECHNOLOGY SOLUTIONS BUSINESS MAY BE UNABLE TO KEEP UP WITH THE CONTINUOUS TECHNOLOGICAL CHANGE IN ITS MARKET.

The success of our technology solutions business will depend, in part, on its

ability to respond to technological advances. This business may not be successful in responding quickly, cost-effectively and sufficiently to these developments. Many of the competitors of our technology solutions business are larger than we are and have significantly more financial resources to invest in advances in technology, products, engagement methodology and other areas central to providing technology and Internet solutions. Our technology solutions business will not be able to compete effectively or meet its growth objectives if it is unable, for technical, financial or other reasons, to adapt in a timely manner in response to technological advances. In addition, employee time allocated to responding to technological advances will not be available for client engagements.

THE SUCCESS OF OUR TECHNOLOGY SOLUTIONS BUSINESS IS LARGELY DEPENDENT UPON ITS ABILITY TO RETAIN ITS MANUFACTURER AUTHORIZATIONS THAT ALLOW IT TO SELL SOFTWARE TO EDUCATIONAL CUSTOMERS AT DISCOUNTED PRICING.

Our technology solutions business has been accumulating authorizations from key software manufacturers that allow it to sell products to educational facilities at deep discounts. If our technology solutions business were to lose any of these authorizations, its ability to sell computer products to educational customers would be adversely impacted, which could have a similar impact on its sales, profitability and ability to expand within this business line. In addition, this business uses credit lines extended by software and hardware manufacturers and distributors. The loss of any of these credit lines would limit the ability of our technology solutions business to meet customer demand, thereby reducing sales and profits.

THE EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND CONVERTIBLE PREFERRED STOCK COULD SUBSTANTIALLY DILUTE EXISTING STOCKHOLDERS AND COULD HAVE A NEGATIVE EFFECT ON OUR STOCK PRICE.

We have adopted the RCG Companies Incorporated Stock Option Plan (the "Plan") and our stockholders have authorized the issuance of options to acquire up to 20,000,000 shares of Common Stock under the Plan. As of June 30, 2004, we have outstanding options for 2,261,657 shares, under the Plan that have been granted to our officers, directors, employees and other service providers of which options for 1,820,229 shares are vested. There have been zero options exercised for fiscal year 2004 of Common Stock that were issued under the Plan. In addition to options issued under the Plan, we currently have outstanding warrants as of June 30, 2004 for 6,421,963 shares, including 6,000 that were exercised during this fiscal year. Our outstanding options and warrants have exercise prices ranging from $0.28 to $28.00. As of the filing date, we currently have outstanding convertible preferred shares for 4,574,468.09 common shares at a conversion price of $.94 per share, none of which has been converted as of the filing date. The exercise of these options, warrants or preferred shares will dilute the percentage ownership of our current stockholders and the potential sale of shares issued upon the exercise of these warrants, options or preferred shares could have a negative impact on the market price of our Common Stock.

THE FUTURE SALES OF RESTRICTED SECURITIES COULD HAVE A NEGATIVE EFFECT ON OUR STOCK PRICE.

The market price of our Common Stock could be negatively affected by the future sale of shares of restricted Common Stock, including shares of restricted Common Stock underlying options and warrants that have been or will be issued by us. As of June 30, 2004 and June 30, 2003, approximately 4,800,000 of our 21,289,004, and 2,100,000 of our 13,948,160, respectively, issued and outstanding shares of Common Stock are believed to be restricted securities as defined in Rule 144 promulgated under the Securities Act or otherwise not available for trading by the public. Rule 144 provides generally that restricted securities must be held

for a one-year period prior to resale and provides certain additional limitations on the sale of such shares, including limitations on the volume of such shares that a beneficial owner may sell in any three-month period thereafter. Generally, non-affiliated stockholders may sell restricted shares that have been held for at least two years without any limitations. In addition, Rule 145 permits the sale by non-affiliates of restricted securities issued in connection with certain business combinations one year after such shares are issued. As restricted shares become eligible for resale pursuant to Rule 144 or Rule 145, the number of sellers of our Common Stock could increase significantly and, as a result, the market price of our Common Stock could decrease.

INABILITY TO PROTECT INTELLECTUAL PROPERTY RIGHTS

We rely primarily on a combination of intellectual property laws and contractual provisions to protect our proprietary rights and technologies, brand and marks. These laws and contractual provisions provide only limited protection of proprietary rights and technology. If we are not able to protect our intellectual property, proprietary rights and technology, we could lose those rights and incur substantial costs policing and defending those rights. Our means of protecting our intellectual property, proprietary rights and technology may not be adequate.

EMPLOYEES

At June 30, 2004, the Company had 347 full-time employees in its continuing businesses as follows.

Travel Services...	307
Technology Solutions..	34
Corporate...	6
Total...	347

The Company has no collective bargaining agreements with any unions and believes that overall relations with its employees are good.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2003, the SEC issued SAB 104, "Revenue Recognition", which codifies, revises and rescinds certain sections of SAB 101, "Revenue Recognition", in order to make this interpretive guidance consistent with current authoritative accounts and audit guidance and SEC rules and regulations. The changes noted in SAB 104 did not have a material effect on the Company's consolidated results of operations, financial position or cash flows.

ITEM 2. PROPERTIES

At June 30, 2004, the Company's continuing businesses leased office-building space as follows.

Business Segment	Locations	Sq. Ft.	

Travel Services	Atlanta, GA; San Jose, CA; Honolulu, HI	48,116	$
Technology Solutions	Fairport, NY; Charlotte, NC; West Mifflin, PA	13,310	$
Corporate	Charlotte, NC	3,304	$

Management believes that all property occupied by the Company and its subsidiaries are adequately covered by insurance.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, the Company and its subsidiaries are involved from time to time in various claims and legal actions. In the opinion of management, the Company is not party to any legal proceedings the adverse outcome of which would have any material adverse effect on its business, its assets, or results of operations.

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

No matters were submitted to a vote of security holders during the fourth quarter ended June 30, 2004.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

The Company's $.04 par value Common Stock ("Common Stock") is listed on the American Stock Exchange under the symbol "RCG". The prices reflect inter-dealer prices, without retail markup, markdown or commission and may not represent actual transactions. The following table shows the high and low trading prices of the Common Stock during the last two fiscal years as reported on the Exchange.

Fiscal Year 2004	High
First Quarter	$ 2.23
Second Quarter	3.16
Third Quarter	2.15
Fourth Quarter	2.40
Fiscal Year 2003	**High**
First Quarter	$ 1.50

Second Quarter	0.93
Third Quarter	0.65
Fourth Quarter	0.70

The closing price of the Company's Common Stock on June 30, 2004 by the Exchange was $2.10 per share.

DIVIDENDS

The Company has never paid cash dividends and currently intends to retain any future earnings to expand its operations. Therefore, it is not contemplated that cash dividends will be paid on the Company's Common Stock in the foreseeable future.

RECORDHOLDERS

The approximate number of recordholders of the Company's Common Stock as of June 30, 2004 was 5,000.

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SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes certain information as of the end of the Company's fiscal year 2004 with respect to compensation plans (including individual compensation arrangements) under which Common Stock of the Company are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average price of outst options, warran rights
Equity compensation plans approved by security holders	2,261,657	$ 2.
Equity compensation plans not approved by security holders	6,421,963	4.
Total	8,683,620	$ 4.

SALES OF UNREGISTERED SECURITIES

The following is a summary of Common Stock activity during the quarter ended June 30, 2004.

Common Sto Issued

Balance at March 31, 2004	19
Shares issued for debt conversion at $1.67 per share	
Private placement at $.25 per share to an accredited investor*	
Shares issued for SchoolWorld acquisition	
Private placement at $.80 per share to an accredited investor**	1
Balance at June 30, 2004	21

* Shares issued pursuant to an agreement dated April 2003. As of June 30, 2004, this private placement is closed and $62,500 was recorded as a receivable. This amount was received on July 28, 2004.

** Strategic transaction concerning the substitution of a letter of credit

In fiscal year 2004, the Company issued options to purchase its Common Stock to employees and directors. Following is a summary of options issued in fiscal year 2004.

Number of Purchasable Shares	Exercise Price Per Share	Grant Date	T (Y
85,000	$0.55	7/1/2003	10
75,000	$0.60	7/14/2003	7
50,000	$1.90	1/4/2004	7
30,000	$1.84	2/10/2004	7
50,000	$1.84	2/10/2004	7
290,000			

All of the options indicated in the table above were granted under the Company's option plan, which was registered on Form S-8. The options were issued without registration under the Securities Act, in reliance upon the exemption in Section 4(2) of the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

Financial Highlights	Year Ended June 30 2004 (1)	2003	2002(2)	
Revenues	$ 180,807,076	$ 73,609,775	$ 37,846,061	$
Loss from continuing operations	(8,521,522)	(709,651)	(2,994,372)	
Basic and fully diluted loss per share - continuing operations	(0.51)	(0.06)	(0.26)	

Weighted average shares outstanding..........	16,799,540	12,661,743	11,520,096
Total assets..................	84,294,008	27,098,092	26,598,415
Working capital (deficit).....	(11,121,088)	(6,721,362)	(1,438,818)
Long-term liabilities.........	9,176,861	616,080	1,290,648
Cash dividends	--	--	--

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(1) Includes the operations of recent acquisitions (See Note 1 to the financial statements in Item 8.)

(2) Restated for discontinued operations.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis should be read with the Consolidated Financial Statements.

OVERVIEW

RESULTS OF CONTINUING OPERATIONS

The following table summarizes results of continuing operations by business segment for each of the three fiscal years in the period ended June 30, 2004.

Year Ended June 30, 2004

	Revenue	Gross Profit
Travel Services................................	$ 165,394,996	$ 10,842,456
Technology Solutions...........................	15,412,080	1,908,737
Corporate......................................	--	--
	$ 180,807,076	$ 12,751,193

Year Ended June 30, 2003

	Revenue	Gross Profit
Travel Services................................	$ 62,607,443	$ 3,545,793
Technology Solutions...........................	11,001,598	1,546,162
Corporate......................................	734	734
	$ 73,609,775	$ 5,092,689

Year Ended June 30, 2002

	Revenue	Gross Profit
Travel Services	$ 27,272,819	$ 971,926
Technology Solutions	10,294,141	1,922,854
Corporate	279,101	279,101
	$ 37,846,061	$ 3,173,881

FISCAL YEAR 2004 COMPARED WITH FISCAL YEAR 2003

The Company's revenue in the year ended June 30, 2004 was $180,807,076 compared to $73,609,775 in 2003. The acquisitions by the travel service business and the technology solutions business accounted for $105,755,169 and $3,032,993, respectively, of the increase. The revenues of the existing travel service business decreased $2,967,616, while the revenues of the existing technology solutions business increased $1,377,489.

Gross profit in 2004 was $12,751,193 compared to $5,092,689 in the prior year, an increase of $7,658,504. The acquisitions by the travel service business and the technology solutions business accounted for $8,369,679 and $416,543, respectively, of the increase. The gross profit of the existing travel service and technology solution businesses decreased $1,073,016 and $53,968, respectively. The Company reported a 7.1% overall gross profit percentage in 2004 as compared to 6.9% in 2003, which is not a substantial change.

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Selling, general and administrative expenses in the year ended June 30, 2004 was $18,636,833 compared with $5,709,547 in fiscal year 2003, an increase of $12,927,286. This increase is due to expenses of the newly acquired businesses and increased staff in the travel services business to support its expanded charter operations, and partially offset by lower marketing expenses, due to the termination of the jet shuttle service and reduced corporate expenses. Selling, general and administrative expenses as a percentage of revenue increased from 8% to 10% of revenue in 2004.

The Company's depreciation and amortization expense in the year ended June 30, 2004 was $809,680 as compared with $363,852 in the prior year. The increase is primarily due to the acquisitions.

In fiscal year 2004, the Company incurred $841,642 of net interest expense as compared to $194,230 in the prior year. The increase is primarily due to the acquisition of the debt issued with the travel services business.

In the years ended June 30, 2004 and June 30, 2003, the Company recorded a net gain on investments of $119,682 and $277,268, respectively. These amounts consist of $0 and $89,604, respectively, relating to net losses on market value adjustments of stock purchase warrants offset by a net realized gain of $119,682 and $366,872, respectively, on sales of securities. These results are reported primarily in the corporate segment results. The Company's operating results for 2003 also include a loss of $54,195, primarily on the sale of two office units by the technology solutions business.

The Company's operating segments were tested for impairment at the end of fiscal year 2004. The fair value of the reporting units were estimated based upon the

expected present value of future cash flows and comparison to similar companies.

The Company evaluates goodwill throughout the fiscal year and made an adjustment of $1,199,690 to write down the goodwill associated with its corporate and technology solutions segments. The decline in the fair value is attributed to a decrease in the forecasted profitability in the technology solutions segment and the corporate segment no longer performing investment advisory services.

The Company experiences significant seasonality in its travel services and limited seasonality in its technology solutions businesses. The seasonality in the travel services business is due to the higher level of vacation and 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 fiscal year end coincides with the year end of many schools and universities. These customers are tied to strict budgets and normally purchase more software at the start and the end of their fiscal years.

FISCAL YEAR 2003 COMPARED WITH FISCAL YEAR 2002

The Company's revenue in the year ended June 30, 2003 was $73,609,775 compared to $37,846,061 in 2002. The increase of $35,763,714 or 94% in 2003 is primarily due to the travel services significant expansion of its charter aviation business as well as a 7% increase in technology solutions revenue. These increases were partially offset by corporate not earning fees for business advisory services in 2003.

Gross profit in 2003 was $5,092,689 compared to $3,173,881 in the prior year, an increase of $1,918,808 or 60%. The increase in 2003 is due to the gross profit generated by the expanded charter aviation business and elimination of the jet shuttle business, which operated at a gross margin deficit. The Company reported a 6.9% overall gross margin in 2003 as compared to 8.4% in 2002. The decrease in margin was due to travel services increase in the dollar amount as a proportion of consolidated gross profit.

Selling, general and administrative expenses in the year ended June 30, 2003 was $5,709,547 compared with $5,865,540 in fiscal year 2002. Selling, general and administrative expenses as a percentage of revenue were significantly reduced to 8% of revenue from 15% of revenue in 2002.

The Company's depreciation and amortization expense in the year ended June 30, 2003 was $363,852 as compared with $320,362 in the prior year. The increase is due primarily to the continuing expansion of the travel services segment.

In fiscal year 2003, the Company incurred $194,230 of net interest expense as compared to $128,345 in the prior year.

In the years ended June 30, 2003 and June 30, 2002, the Company recorded a net gain on investments of $277,268 and $146,475, respectively. These amounts consist of $89,604 and $476,185, respectively, relating to net losses on market value adjustments of stock purchase warrants offset by a net realized gain of $366,872 and $622,660, respectively, on sales of securities. These results are reported primarily in the corporate segment results. The Company's operating results for 2003 also include a loss of $54,195 on the sale of two office units by the technology solutions business.

The Company realized a gain of $575,824 on the sale of its discontinued commercial real estate business in the quarter ended September 30, 2001.

The Company's operating segments were tested for impairment at the end of fiscal year 2003. The fair value of the reporting units were estimated based upon the expected present value of future cash flows and comparison to similar companies.

In fiscal year 2002, the Company recorded the cumulative effect of a change in accounting principle of $693,000, increasing the Company's reported net loss, as a result of its implementation of FAS 142. This adjustment was recorded as of July 1, 2001.

The Company experiences some 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 many schools and universities. These customers are tied to strict budgets and normally purchase more software at the start and the end of their fiscal years.

LIQUIDITY AND CAPITAL RESOURCES

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses from operations and as of June 30, 2004 had a working capital deficit of $11,121,088. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management recognizes that in order to meet the Company's capital requirements, and continue to operate, additional funding is necessary. The Company is exploring additional sources of liquidity, through debt and

equity financing alternatives and potential sales of its Common Stock in private placement transactions. Additionally the Company is negotiating the restructure of its long-term debt. If the Company is (i) unable to grow its business or improve its operating cash flows as expected, (ii) unsuccessful in extending a substantial portion of the debt repayments currently past due, or (iii) unable to raise additional funds through private placement sales of its Common Stock, then the Company may be unable to continue as a going concern. 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 flows 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 the Company's current shareholders would be diluted. These consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties.

Cash and cash equivalents were $6,596,076 and $807,834 at June 30, 2004 and June 30, 2003, respectively. At June 30, 2004, the Company had current assets of $57,806,513 as compared to $68,927,601 of total current liabilities, resulting in a working capital deficit of $11,121,088. At June 30, 2003, we had current assets of $8,492,428 as compared to $15,213,790 of total current liabilities,

resulting in a working capital deficit of $6,721,362.

Cash and cash equivalents increased by $5,788,242 during 2004. Cash of $5,404,877, primarily from the sale of Common Stock, was provided from financing operations and $1,272,269 from operating activities, offset by $888,904 used in investing activities.

Cash of $1,272,269 was provided from operating activities during fiscal year 2004. The net loss of $12,112,568 for the year was offset by non-cash losses from discontinued operation of $3,591,046, other non-cash charges of $1,362,253 and an increase of $8,431,538 from the net operating assets and liabilities.

Non-cash charges of $1,362,253 consist primarily of $1,199,690 goodwill impairment, $809,680 in depreciation an amortization charges and issuance of Common Stock for services and contract settlement of $773,106, offset by $2,184,773 of amortization of an unfavorable airline contract.

The net increase in operating assets and liabilities of $8,431,538 was due significantly to the increase in unearned income of $12,985,949 and accounts payable and accrued expenses of $14,216,839, offset by an increase in restricted cash of $19,356,089.

The following table summarizes contractual obligations as of June 30, 2004 (in thousands).

	Total	Prior to June 30, 2005	July 1, 2005 to June 30, 2007	July 1 to June
Purchase obligations..........	$ 60,154	$ 30,865	$ 18,868	$
Long-term notes payable.......	11,250	--	3,463	
Operating and capital-lease obligations............	18,424	9,162	6,278	
	$ 89,828	$ 40,027	$ 28,609	$

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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 $331,690 and $111,824 at June 30, 2004 and June 30, 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk generally represents the risk of loss that may result from the potential change in value of a financial instrument as a result of fluctuations in interest rates and market prices. We do not currently have any trading derivatives nor do we expect to have any in the future. We have established policies and internal processes related to the management of market risks, which we use in the normal course of our business operations.

INTANGIBLE ASSET RISK

We have a substantial amount of intangible assets. We are required to perform goodwill impairment tests at least on an annual basis and whenever events or circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. As a result of our annual and other periodic evaluations, we may determine that the intangible asset values need to be written down to their fair values, which could result in material charges that could be adverse to our operating results and financial position. Although at June 30, 2004, we believe our intangible assets are recoverable, changes in the economy, the business in which we operate and our own relative performance could change the assumptions used to evaluate intangible asset recoverability. We continue to monitor those assumptions and their consequent effect on the estimated recoverability of our intangible assets.

COMMODITY PRICE RISK

We do not enter into contracts for the purchase or sale of commodities. As a result, we do not currently have any direct commodity price risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are contained in this Item 8.

- Report of Independent Registered Public Accounting Firm.
- Consolidated Balance Sheets as of June 30, 2004 and June 30, 2003.
- Consolidated Statements of Operations for the years ended June 30, 2004, June 30, 2003 and June 30, 2002.
- Consolidated Statements of Changes in Shareholders' Deficit for the years ended June 30, 2004, June 30, 2003 and June 30, 2002.
- Consolidated Statements of Cash Flows for the years ended June 30, 2004,

June 30, 2003 and June 30, 2002.

o Notes to the Consolidated Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
RCG Companies Incorporated and Subsidiaries
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of RCG Companies Incorporated and Subsidiaries (The Company) as of June 30, 2004 and 2003 and the related consolidated statements of operations, shareholders' deficit and cash flows for each of the three years in the period ended June 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of a subsidiary for 2004 and 2003, which statements reflect total assets of $0 and $7,753,042 as of June 30, 2004 and 2003, respectively, and losses from discontinued operations of $3,591,046, $4,541,141 and $607,939 for the three years ended June 30, 2004. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the subsidiary, is based solely on the reports of the other auditors.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RCG Companies Incorporated and Subsidiaries at June 30, 2004 and 2003, and the results of its operations and its cash flows for the three years ended June 30, 2004, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and at June 30, 2004 had a deficiency in working capital that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO Seidman
BDO Seidman, LLP
Charlotte, North Carolina

October 8, 2004, except for Note 16,
which is dated October 27, 2004

GUEST & COMPANY, P.C.
7170 S. Braden Ave., Suite 100
Tulsa, Oklahoma 74136-6333

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lifestyle Innovations, Inc. and Subsidiaries
Colleyville, Texas

We have audited the accompanying consolidated balance sheets of Lifestyle Innovations, Inc. and Subsidiaries (the Company), as of June 30, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended June 30, 2004, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lifestyle Innovations, Inc. and Subsidiaries as of June 30, 2004 and 2003, and the consolidated results of their operations and their consolidated cash flows for the years ended June 30, 2004, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1(e) to the consolidated financial statements, the Company has a significant working capital deficit as of June 30, 2004, and does not have sufficient cash flows to meet its obligations currently due. In addition, the Company suffered a significant loss in fiscal year 2004, as well as the prior two years, and has a significant deficit in its equity section of the June 30, 2004, consolidated balance sheet. At June 30, 2004, the Company has only one operating subsidiary with continuing operations, and all other subsidiaries of the Company have been discontinued or were sold in fiscal year 2004. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1(e). The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ GUEST & COMPANY, P.C.

Tulsa, Oklahoma
October 5, 2004

RCG COMPANIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	
Cash and cash equivalents	$
Restricted cash	
Accounts receivable, net of allowance for doubtful accounts of $331,690 and $111,824, respectively	
Due from affiliates	
Inventory	
Investments	
Prepaid expenses	
Total current assets	
Deferred costs and other assets	
Property and equipment, net	
Net non-current assets of discontinued operations	
Goodwill and other intangible assets, net	
Total assets	$
LIABILITIES AND SHAREHOLDERS' EQUITY	
Notes payable and other obligations - current portion	
Notes payable and amounts due to related parties	
Accounts payable and accrued expenses	
Net current liabilities of discontinued operations	
Unearned income	
Total current liabilities	
Warrant obligation	
Notes payable and other obligations	
Notes payable and amounts due to related parties	
Total liabilities	
Minority interest	
Shareholders' equity:	
Common stock, $0.04 par value, 200,000,000 shares authorized, 21,289,004 and 13,948,160 issued, 21,157,790 and 13,816,946 outstanding, respectively	
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none outstanding	
Additional paid-in capital	1
Accumulated deficit	(1
Accumulated other comprehensive loss	
Treasury stock at cost (131,214 shares)	
Total shareholders' equity	

Total liabilities and shareholders' equity........................	$

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

RCG COMPANIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years	
	2004	
Revenues:		
Services..	$ 165,764,601	$
Product sales...	15,042,475	
Total revenue....................................	180,807,076	
Cost of revenues:		
Services..	154,812,412	
Product sales...	13,243,471	
Total cost of revenue............................	168,055,883	
Gross profit.....................................	12,751,193	
Selling, general and administrative expenses.................	18,636,833	
Depreciation and amortization................................	809,680	
Goodwill impairment..	1,199,690	
Operating costs and expenses......................	20,646,203	
Loss from operations.............................	(7,895,010)	
Interest expense, net..	841,642	
Other income...	(100,262)	
Equity in earnings of joint ventures.........................	(14,067)	
Loss on sale of assets.......................................	18,881	
Gain on investments, net.....................................	(119,682)	
Loss from continuing operations..................	(8,521,522)	
Loss from discontinued operations, net.......................	(3,591,046)	
Gain on disposal of discontinued operations..................	-	
Loss before cumulative effect of change in accounting principle	(12,112,568)	
Cumulative effect of change in accounting principle..........	-	
Net loss...	$ (12,112,568)	$

Basic and diluted net loss per share:		
Loss from continuing operations........................	$ (0.51)	$
Loss from discontinued operations......................	(0.21)	
Gain (loss) on disposal of discontinued operations......	-	
Cumulative effect of change in accounting principle.....	-	
Net loss..	$ (0.72)	$
Weighted average shares outstanding.........................	16,799,540	
Weighted average shares outstanding, assuming dilution........	16,799,540	

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

RCG COMPANIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE THREE YEARS ENDED JUNE 30, 2004

	Common Stock Shares	Common Stock Amounts	Additional Paid-In Capital	Accumulated Deficit	Accu Compre Incom
Balance at July 1, 2001.....	10,833,390	$ 433,335	$ 111,957,090	$ (93,478,807)	$ 8
Comprehensive loss:					
Net loss June 30, 2002......	-	-	-	(4,295,311)	
Unrealized loss on investments available for sale.....................	-	-	-	-	(1
Comprehensive loss....	-	-	-	(4,295,311)	(1
Sale of Common Stock........	1,251,429	50,057	808,443	-	
Purchase of Business........	172,103	6,884	767,075	-	
Issuance of Common Stock for services.................	53,112	2,124	178,163	-	
Issuance of Common Stock for loan fee..................	71,429	2,859	129,340	-	
Issuance of treasury stock for services.............	-	-	-	-	
Capital contribution........	-	-	200,000	-	
Return of shares pursuant to contract settlement.......	-	-	-	-	
Balance at June 30, 2002....	12,381,463	495,259	114,040,111	(97,774,118)	(

Comprehensive loss:					
Net loss June 30, 2003......	-	-	-	(5,250,792)	
Unrealized loss on investments available for sale......................	-	-	-	-	(2
Comprehensive loss....	-	-	-	(5,250,792)	(2
Issuance of treasury stock for services..............			(97,288)		
Issuance/cancellation of Common Stock for services.	89,554	3,582	1,368	-	
Return of treasury stock for loan fee settlement.......	-	-	-	-	
Sale of Common Stock........	1,477,143	59,086	384,912	-	
Balance at June 30, 2003....	13,948,160	557,927	114,329,103	(103,024,910)	(2
Comprehensive and net loss June 30, 2004.............	-	-	-	(12,112,568)	
Issuance of Common Stock for debt and accounts payable conversions...............	1,149,103	45,964	1,583,816	-	
Issuance of Common Stock for services..................	440,000	17,600	755,506	-	
Issuance of Common Stock for business acquisitions.....	224,312	8,972	371,028	-	
Sale of Common Stock........	5,527,429	219,098	4,346,372	-	
Balance at June 30, 2004....	21,289,004	$ 849,561	$ 121,385,825	$ (115,137,478)	$ (2

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

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RCG COMPANIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

		For t
	2004	2003
Cash flows from operating activities:		
Net loss..	$ (12,112,568)	$ (5,250
Change in accounting principle..........................	-	
Loss from discontinued operations......................	3,591,046	4,541
Loss from continuing operations........................	(8,521,522)	(709
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization.......................	809,680	363
Bad debt expense....................................	157,087	5
Common stock issued for services and settlement of contract.......................................	541,000	(5

Stock purchase warrants issued for services	232,106	
Gain on sale of investments	(119,682)	(238
Equity in earning of joint venture	(14,067)	(3
(Gain) loss on sale of assets	18,881	54
Compensation expense related to stock options and warrants	-	
Goodwill impairment	1,199,690	
Deferred debt cost amortization	722,331	53
Amortization of unfavorable airline contract	(2,184,773)	
Changes in operating assets and liabilities:		
Restricted cash	(19,356,089)	(1,679,
Accounts receivable	(994,955)	663
Inventory	(27,077)	45
Prepaid expenses	1,702,637	223
Deferred costs and other assets	(27,266)	(166,
Accounts payable and accrued expenses	14,216,839	217
Due to/from affiliates	(68,500)	
Unearned income	12,985,949	762
Net cash provided by (used in) continuing operating activities	1,272,269	(413
Net cash used in discontinued operating activities	(574,422)	(1,746
Net cash provided by (used in) operating activities	697,847	(2,160
Cash flows from investing activities:		
Purchase of property and equipment	(732,603)	(271
Sale of investments	183,600	428
Sale of assets	22,892	257
Cash paid in connection with business acquisitions, net	(362,793)	(439
Net cash provided by (used in) continuing investing activities	(888,904)	(23
Net cash used in discontinued investing activities	(523)	(681
Net cash used in investing activities	(889,427)	(705
Cash flows from financing activities:		
Notes payable proceeds	-	330
Principal debt repayments	(840,097)	(325
Net change in line of credit	159,504	273
Sale of RCG Common Stock	6,085,470	443
Net cash provided by continuing financing activities	5,404,877	722
Net cash provided by discontinued financing activities	574,945	2,428
Net cash provided by financing activities	5,979,822	3,150
Net increase (decrease) in cash and cash equivalents	5,788,242	284
Cash and cash equivalents at beginning of period	807,834	523
Cash and cash equivalents at end of period	$ 6,596,076	$ 807

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

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

Supplemental Cash Flow Information	Years Ended 2004	2
Cash paid during the period for:		
Interest	$ 493,161	$
Income taxes	-	
Non-cash investing and financing activities:		
Common stock issued for acquired business	380,000	
Note and Service Agreement Obligation issued for acquired business	9,067,964	
Fixed assets acquired of new businesses	643,275	
Common stock and warrants issued for conversion of debt	1,517,500	
Common stock and warrants issued for conversion of accounts payable and accrued expenses	112,280	
Conveyance of RCG's LFSI Common Stock for services	118,800	
Issuance of compensatory stock purchase warrants in connection with strategic alliances and other services	-	
Payment for services with Common Stock	-	
Unrealized loss on available for sale investments	-	
Issuance of Common Stock and warrants for loan origination fees	-	

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

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RCG COMPANIES INCORPORATED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements include the operations of RCG Companies Incorporated ("RCG") and its subsidiaries (collectively the "Company"). At June 30, 2004, the Company operated businesses in the travel services and technology solutions segments in the United States. On November 14, 2003, the Company changed its name from eResource Capital Group, Inc. to RCG Companies Incorporated.

Operations and Liquidity

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses from operations and as of June 30, 2004 had a working capital deficit of $11,121,088. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management recognizes that in order to meet the Company's capital requirements, and continue to operate, additional funding is necessary. The Company is exploring additional sources of liquidity, through debt and equity financing alternatives and potential sales of its Common Stock in private placement transactions. Additionally the Company is negotiating the restructure

of its long-term debt. If the Company is (i) unable to grow its business or improve its operating cash flows as expected, (ii) unsuccessful in extending a substantial portion of the debt repayments currently past due, or (iii) unable to raise additional funds through private placement sales of its Common Stock, then the Company may be unable to continue as a going concern. 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 flows 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 the Company's current shareholders would be diluted. These consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties.

Consolidation

The Company's consolidated financial statements include the assets, liabilities and results of operations of RCG and each business acquired by RCG from the date of its acquisition through June 30, 2004. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the fiscal year 2004 presentation.

Cash and Cash Equivalents

The Company classifies as cash equivalents any investments that have an original maturity of less than three months. At times cash and cash equivalent balances are at a limited number of banks and financial institutions and may exceed insurable amounts. The Company believes it mitigates its risks by depositing cash or investing in cash equivalents in major financial institutions.

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 departure date. The Company classifies these escrow accounts as restricted cash. All escrow accounts are maintained in one financial institution and balances exceed insurable limits.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, accounts receivable, investments and notes payable. The Company places its temporary cash with high credit quality principal institutions. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Although due dates of receivables vary based on contract terms, credit losses have been within management's estimates in determining the level of allowance for doubtful accounts. Overall financial strategies are reviewed periodically.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

- Cash and cash equivalents: The carrying amount reported in the balance sheet for cash approximates its fair value.
- Accounts receivable and accounts payable: Due to their short term nature, the carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate their fair value. The Company provides for any losses through its allowance for doubtful accounts.
- Investments: The fair values for available-for-sale equity securities are based on estimated market prices.
- Notes Payable: The carrying amount of the Company's notes payable approximate their fair value.

During fiscal years 2003 and 2002, sales to Vacation Express, a MyTravel Group company, a customer of the Company's travel services business, represented 73% and 63%, respectively, of the Company's consolidated revenue. This concentration of revenue with Vacation Express, and its sister company, SunTrips, both part of the MyTravel Group, increased in July 2002 with the beginning of a new scheduled charter program for SunTrips.

Trade Accounts Receivable

Accounts receivable from the sale of products or services are recorded at net realizable vale and the Company grants credit to customers on an unsecured basis. The Company provides an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Normal trade receivables are due from 15 to 30 days after the issuance of an invoice. Receivables past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

The Company computes finance charges on accounts that are 30 days past due. The finance charges are recognized into income when accrued unless collection is doubtful.

Inventory

Inventory consists mainly of computer software for the technology solutions segment. Inventory is recorded at the lower of cost or market with cost being determined on a first-in, first-out basis.

Investments

Investments, including certificates of deposit with maturities of greater than three months, not readily marketable equity securities and other marketable securities, are classified as available for sale. Investment securities that are not readily marketable include securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other

arrangements, restrictions, or conditions applicable to the securities or the Company. Certificates of deposit are recorded at cost plus accrued interest. Marketable equity securities are recorded at estimated values based on quoted market values for marketable securities of the issuer, discounted for trading restrictions. If there is no quoted market value, the recorded values are based on the most recent transactions in the securities discounted for lack of marketability. Investment securities transactions are recorded on a trade date basis. The difference between cost and fair value is recorded as unrealized gain or loss on available for sale securities as a component of comprehensive income.

Investments also include stock purchase warrants, which the Company periodically receives as part of its compensation for services. Stock purchase warrants from companies with publicly traded Common Stock are considered derivatives in accordance with SFAS 133 "Accounting for Derivative Investments and Hedging Activities". The Company recognizes revenue at the fair value of such stock purchase warrants when earned based on the Black-Scholes valuation model. The Company recognizes unrealized gains or losses in the statement of operations based on the changes in value in the stock purchase warrants as determined by the Black-Scholes valuation model subsequent to the date received.

Prepaid Expenses

Prepaid expenses include insurance, deferred costs, certain taxes and charter flight costs. Depending upon the volume and timing of charter flight activity, the amount of prepaid charter flight costs can fluctuate significantly.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line basis over the assets' estimated useful lives. Expenditures for maintenance and repairs are expensed as incurred. Expenditures for improvements that extend the useful life or add value to the asset are capitalized and then expensed over that asset's remaining useful life.

Sales and disposals of assets are recorded by removing the related cost and accumulated depreciation amounts with any resulting gain or loss reflected in the statement of operations.

The carrying value of property and equipment and predevelopment costs is reviewed for impairment whenever events or changes in circumstances indicate that such amounts may not be recoverable. If such an event occurred, the Company would prepare projections of future results of operations for the remaining useful lives of such assets. If such projections indicated that the expected future net cash flows (undiscounted and without interest) are less than the carrying amounts of the property and equipment and the predevelopment costs, the Company would record an impairment loss in the period such determination is made.

Goodwill and Intangible Assets

The Company records goodwill and intangible assets arising from business combinations in accordance with Financial Accounting Standards Board Statement ("FASB") No. 141 "Business Combinations" ("FASB 141") which requires that the purchase method of accounting be used for all business combinations initiated

after June 30, 2001. FASB 141 also specifies the criteria applicable to intangible assets acquired in a purchase-method business combination to be recognized and reported apart from goodwill.

The Company accounts for goodwill and intangible assets in accordance with FASB No. 142 "Goodwill and Other Intangible Assets" ("FASB 142"). The Company adopted FASB 142 effective July 1, 2001. In completing the adoption of FASB 142, the Company has allocated its previously existing goodwill as of July 1, 2001 to its reporting units, as defined in FASB 142, and performed an initial test for impairment as of that date.

In accordance with FASB 142, the Company no longer amortizes goodwill. FASB 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested at least annually for impairment. FASB 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and be reviewed for impairment.

Goodwill, which represents the cost in excess of fair value of net assets acquired, is subject to an impairment test on an annual basis, or when there is reason to believe that the value has been diminished or impaired. The fair value of the Company's identified reporting units was estimated using the expected present value of corresponding future cash flows and market values of comparable businesses where available. The Company evaluated goodwill throughout fiscal year 2004 and made an adjustment of $1,199,690 to write down the goodwill associated with its corporate and technology solutions segments. The decline in the fair value is attributed to a decrease in the forecasted profitability in the technology solutions segment and the corporate segment no longer performing investment advisory services.

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.

Warrant Obligation

In accordance with Emerging Issues Task Force Issue 00-19, or EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the fair value of warrants issued in certain private placements have been initially accounted for as a liability because the Company will incur a substantial penalty if it cannot comply with the warrantholders' registration rights or have other net-cash settlement features. The fair value of the warrants was calculated utilizing the Black-Scholes option-pricing model.

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 disclosures that are more prominent in both annual and interim financial statements, in regards to 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 pro forma net loss and net loss per share assuming compensation cost was determined under FASB No. 123 for all options would have been the following for the years ended June 30, 2004, June 30, 2003 and June 30, 2002.

	2004	2003
Net loss, as reported........................	$(12,112,568)	$(5,250,792)
Stock-based employee compensation credit included in reported net loss................	-	49,920
	(12,112,568)	(5,200,872)
Deduct: Stock-based compensation expense determined under FAS 123....................	(179,855)	(334,278)
Pro forma net loss...........................	$(12,292,423)	$(5,535,150)
Earnings per share:		
Basic and diluted loss per share, as reported.	$(0.72)	$(0.42)
Basic and diluted loss per share, pro forma...	$(0.73)	$(0.44)

Unearned Income and Revenue Recognition

Travel Services

Revenue from the sale of tour packages either to 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. Substantially all of the unearned income on the Company's balance sheet is from the travel services business.

Technology Solutions

Internet Web site development services project revenue is recognized on a percentage of completion basis for fixed fee contracts, based on the ratio of costs incurred to total estimated costs for individual projects. Revenue is recognized as services are performed for time and material contracts at the applicable billing rates.

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

The Company provides e-commerce marketing and business development services to clients pursuant to contracts with varying terms. The contracts generally provide for monthly payments and, in some cases, advance deposits. Revenue is recognized over the respective contract period as services are provided.

Revenue from uncollateralized e-commerce sales or sales of hardware and software is recognized upon passage of title of the related goods to the customer.

Net Loss Per Share

The Company computes net loss per share in accordance with FASB No. 128, "Earnings per Share" which requires dual presentations of basic and diluted earnings per share.

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of common shares outstanding and potentially dilutive shares outstanding during the period. Options and warrants to purchase 8,683,620 and 3,763,392 shares of Common Stock were outstanding at June 30, 2004, June 30, 2003 and June 30, 2002, respectively. Such outstanding options and warrants could potentially dilute earnings per share in the future but have not been included in the computation of diluted net loss per share in 2003 and 2002 as the impact would have been anti-dilutive.

Advertising

The Company expenses advertising costs as incurred. Advertising expense aggregated $1,054,234, $109,477 and $255,624 for the years ended June 30, 2004, June 30, 2003 and June 30 2002, respectively.

Income Taxes

The Company accounts for income taxes in accordance with the liability method as provided under FASB No. 109, "Accounting for Income Taxes". Accordingly, deferred income taxes are recognized for the tax consequences of differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The measurement of deferred tax assets is reduced, if necessary, by the amount of any benefits that, based on available evidence, are not expected to be realized.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Reclassifications

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

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

Recent Accounting Pronouncements

In December 2003, the SEC issued SAB 104, "Revenue Recognition", which codifies, revises and rescinds certain sections of SAB 101, "Revenue Recognition", in order to make this interpretive guidance consistent with current authoritative accounts and audit guidance and SEC rules and regulations. The changes noted in SAB 104 did not have a material effect on the Company's consolidated results of operations, financial position or cash flows.

NOTE 2. BUSINESS ACQUISITIONS AND DISCONTINUED OPERATIONS

Acquisitions

Through its wholly owned subsidiary, Flightserv, Inc. ("Flightserv"), RCG 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, which is deductible for tax purposes. The consideration, which included acquisition costs of $314,091, was allocated as follows.

Current assets	$ 25,115,629
Property and equipment	628,775
Goodwill	15,050,524
Other intangible assets	702,000
Total assets acquired	41,496,928
Current liabilities	32,109,167
Net assets acquired	$ 9,387,761

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

On November 5, 2003, the technology solutions business completed the acquisition of SchoolWorld Software, a Pittsburgh, Pennsylvania-based educational software company. The consideration, which included acquisition costs of $48,702 and the issuance of 224,312 shares valued at $380,000, was allocated as follows (in thousands).

Property and equipment....................	$	14,500
Goodwill and other intangible assets......		414,202
Total assets acquired..............	$	428,702

Operations of the acquired businesses are included in the consolidated financial statements from the date of acquisition. The following sets forth unaudited 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).

	Years Ended June 30, (unaudited) 2004	2003
Revenues..................................	$ 234,972	$ 218,884
Net loss..................................	(23,991)	(33,139)
Basic and diluted loss per share..........	(1.43)	(2.62)

Discontinued Operations

During the third quarter of 2004, the Board authorized the disposition of the Company's investment in LFSI. Accordingly, the operations of LFSI were reclassified to discontinued operations for all periods presented. During the fourth quarter, the Company contributed approximately 4 million shares to the treasury of LFSI, of which a substantial portion of the contributed shares were reissued to certain LFSI investors to settle certain contingent claims. LFSI also issued other shares, which resulted in RCG's interest in LFSI being reduced to an effective 45.5% beneficial ownership. Considering the substantial reduction in ownership and the lack of control over LFSI, the investment in LFSI is now recorded using the equity method and is no longer a consolidated subsidiary. The change resulted in RCG restoring its negative carrying value during the fourth quarter, which was recognized as a gain on deconsolidation of LFSI.

The loss from discontinued operations at June 30, 2004, June 30, 2003 and June 30, 2002 is summarized as follows.

	Years Ended June 30 2004	2003
Gross revenues................................	$ 2,426,307	$ 4,611,23
Cost of revenues and operating expenses.........	2,521,350	8,128,12

Goodwill impairment	6,899,454	2,577,04
Net loss per LFSI financials	(6,994,497)	(6,093,93
Minority interest	314,281	1,552,79
Gain on deconsolidation of LFSI	3,089,170	
Gain on disposal of discontinued operations	-	
Loss from discontinued operations	$ (3,591,046)	$ (4,541,14

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

Net non-current assets of LFSI at June 30, 2003 consisted of the following.

Goodwill	$ 9,282,251
Property and equipment, net	591,514
Deferred costs and other assets	56,829
Non-current assets	9,930,594
Long-term debt and capital leases, less current portion	(2,177,552)
	$ 7,753,042

Net current liabilities of LFSI at June 30, 2003 consisted of:	
Accounts payable and accrued expenses	$ (4,209,645)
Current portion of long-term debt and capital leases	(2,463,242)
Non-current assets	(6,672,887)
Cash	167,293
Accounts receivable, net	893,698
Prepaid expenses and other assets	12,087
Inventories	818,907
	$ (4,780,902)

NOTE 3. INVESTMENTS

Investments at June 30, 2004 and June 30, 2003 consisted of the following.

	2004 Net			
	Cost	Unrealized (Loss)	Fair Value	Cost

Equity securities......	$585,298	$(276,347)	$308,951	$585,298
Private joint ventures.	17,960	-	17,960	67,994
	$603,258	$(276,347)	$326,911	$653,292

The unrealized loss on equity securities at June 30, 2004 and June 30, 2003 consists of unrealized accumulated losses of $321,000, offset by unrealized accumulated gains of $45,000.

NOTE 4. PREPAID EXPENSES

Prepaid expenses at June 30, 2004 and June 30, 2003 consisted of the following.

	2004	2003
Flight and vacation costs.........	$ 5,410,527	$ 2,375,919
Other............................	413,182	265,617
	$ 5,823,709	$ 2,641,536

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

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net at June 30, 2004 and June 30, 2003 consisted of the following.

	2004	2003
Land, buildings and improvements........	$ 316,311	$ 78,418
Furniture and fixtures..................	384,658	287,255
Computers and office equipment..........	1,870,302	1,237,349
Software................................	571,052	248,749
	3,142,323	1,851,771
Accumulated depreciation................	(1,615,577)	(1,053,884)
	$ 1,526,746	$ 797,887

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets, by business segment, for the fiscal years ended June 30, 2004 and June 30, 2003 are as follows.

	Travel Services	Technology Solutions	Corporate

Balance at July 1, 2002	$ 939,088	$ 7,630,675	$ 1,000,00
Goodwill acquired during period		74,580	
Other goodwill adjustments	-	(2,972)	
Balance at June 30, 2003	939,088	7,702,283	1,000,00
Goodwill and other intangible assets acquired during period, net of $156,000 amortization	15,596,524	414,202	
Goodwill impairment	-	(199,690)	(1,000,00
Balance at June 30, 2004	$ 16,535,612	$ 7,916,795	$

During fiscal year 2004, goodwill increased by $15,050,524 and other intangibles by $702,000 as a result of the travel services acquisition (see Note 2). The $546,000 of remaining other intangible assets is estimated to be amortized in 2005 at $234,000, and in 2006 at $234,000. Goodwill was reduced by $1,199,690 associated with the corporate and technology solutions segments. The decline in the fair value is attributed to a decrease in the forecasted profitability in the technology solutions segment and the corporate segment no longer performing investment advisory services.

NOTE 7. NOTES PAYABLE AND OTHER OBLIGATIONS

Notes payable and other obligations consisted of the following at June 30, 2004 and June 30, 2003.

	2004
Note payable - due in August 2003 with interest at 10% and unsecured (1)	$
Note payable - due July 27, 2003 and unsecured (2)	160,
Revolving credit facility (maximum borrowing $1 million)- secured by substantially all assets of the technology solutions business with interest at prime-plus-2% (6.25% at June 30, 2004)	433,
Capital lease obligations at various interest rates due in monthly installments through November 2007	152,
Note payable - unsecured and due on demand (3)	
Service agreement obligation - in the amount of $3,562,500, less unamortized discount of $433,737 imputed at 12% and unsecured (4)	3,128,
Note payable - in the amount of $9,850,000, less unamortized discount of $4,126,008 imputed at 12%, secured by certain RCG investment holdings (5)	5,723,
	9,598,
Less current maturities, including demand notes	(1,941,

Long-term portion	$ 7,656,

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(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 and June 9, 2004, $30,000 and $10,000, respectively, of principal were paid. The Company currently is negotiating 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 three-year period beginning November 1, 2003.
(5) On October 31, 2003, Flightserv purchased two businesses (see Note 2) for a $10 million non-interest bearing seven-year note. Payments commence quarterly beginning June 30, 2004.

Future maturities of the debt and notes payable are as follows at June 30, 2004.

Fiscal Year	
2005	$ 1,941,918
2006	1,517,867
2007	606,408
2008	91,788
2009	101,562
Thereafter	5,339,236
	$ 9,598,779

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

NOTE 8. NOTES PAYABLE AND AMOUNTS DUE TO RELATED PARTIES

Notes payable and amounts due to related parties consisted of the following at June 30, 2004 and June 30, 2003.

	June 30, 2004	June 30, 2003
Notes payable - due in August 2003 with interest imputed at 8% and unsecured (1)	$ -	$ 267,500
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)	-	750,000

Note payable - unsecured and due on demand (3)..........	-	5,000
Other advances..	-	73,063
	-	1,095,563
Less current maturities, including demand notes.........	-	(495,563)
Long-term portion.......................................	$ -	$ 600,000

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(1) The principal and accrued interest on this note payable is 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 terms above.

(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. Under certain conditions, the Company can force the debt holder to convert to stock at $7.00 per share. On May 4, 2004, all of the $750,000 debt was converted to 450,000 shares ($1.67 per share) of Common Stock.

(3) RCG repaid in October 2003.

NOTE 9. INCOME TAXES

Deferred income tax assets and (liabilities) consisted of the following as of June 30, 2004 and June 30, 2003.

	June 30, 2004	June 30, 2003
Deferred income tax assets:		
Warrants and stock options....................	$ 305,816	$ -
Net operating loss carry-forwards.............	18,969,514	19,575,969
Other	166,777	327,735
Total deferred income tax assets.........	19,442,107	19,903,704
Deferred income tax liabilities:		
Property and equipment........................	(167,057)	(167,057)
Intangible assets.............................	(248,660)	-
Net deferred income tax assets................	19,026,390	19,736,647
Deferred income tax asset valuation allowance..	(19,026,390)	(19,736,647)
Net deferred income tax assets..........	$ -	$ -

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

A reconciliation of the Company's effective income tax rate (-0-%) to the statutory income tax rate (34%) is as follows.

	Year Ended June 30, 2004	2003
Federal tax benefit at statutory rate..............	$ (3,982,412)	$ (1,744,099)
State tax benefit, net of federal..................	(343,639)	(150,497)
Permanent differences..............................	963,659	700,579
IRS examination settlement.........................	2,303,175	-
Other..	348,960	(3,541,172)
Elimination of warrants and stock options..........	-	18,957,496
Change in deferred tax asset valuation allowance....	710,257	(14,222,307)
Income tax expense, actual.........................	$ -	$ -

As of June 30, 2004, the Company had approximately $51,000,000 of net operating loss carry-forwards (NOLs) for federal income tax purposes, which expire between 2020 through 2024. A deferred income tax asset valuation allowance has been established against all deferred income tax assets, as management is not certain that the deferred income tax assets will be realized. In addition, due to substantial limitations placed on the utilization of net operating losses following a change in control, utilization of such NOLs could be limited.

NOTE 10. COMMON STOCK AND PAID IN CAPITAL

In fiscal year 2004, in connection with the acquisition of Vacation Express and SunTrips, the Company issued 2,500,000 shares of restricted Common Stock at $1.60 per share.

In fiscal year 2004, in connection with the acquisition of SchoolWorld, the Company issued 224,312 shares of restricted Common Stock at $1.69 per share.

In fiscal year 2004, the Company issued 440,000 shares of restricted Common Stock in payment of services for investor relations.

In fiscal year 2004, the Company issued an aggregate of 700,000 shares of restricted Common Stock in connection with the Company's fourth quarter fiscal year 2003 private placement sale of Common Stock at $0.25 per share.

In fiscal year 2004, the Company issued an aggregate of 1,071,428 shares of restricted Common Stock in connection with the Company's private placement sale of Common Stock at $1.60 per share.

In fiscal year 2004, the Company issued an aggregate of 1,250,000 shares of restricted Common Stock in connection with the Company's private placement sale of Common Stock at $0.80 per share.

In fiscal year 2004, the Company issued an aggregate of 1,149,103 shares of restricted Common Stock in connection with the Company's conversion of debt and accounts payable.

In fiscal year 2004, previously issued warrants were exercised by a vendor in the amount of 6,000 Common Stock shares at $0.50 per share.

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

In fiscal year 2003, the Company issued 89,554 shares of restricted Common Stock in payment of certain services.

In fiscal year 2003, the Company terminated an agreement with a service provider. The Company had granted warrants to the service provider that vested over a year resulting in additional paid-in capital of $98,000. Upon the cancellation of the agreement, the Company reversed the unvested warrants resulting in a reduction of additional paid-in capital of $45,200.

In the first quarter of fiscal year 2003, the Company issued an aggregate of 177,143 shares of restricted Common Stock in connection with the Company's private placement sale of Common Stock at $0.70 per share.

In the fourth quarter of fiscal year 2003, the Company issued an aggregate of 1,300,000 shares of restricted Common Stock in connection with the Company's private placement sale of Common Stock at $0.25 per share.

In fiscal year 2002, the Company issued an aggregate of 1,251,429 shares of restricted Common Stock in connection with this private placement at $0.70 per share.

In July 2002, the Company issued 14,286 shares of restricted Common Stock from treasury stock with the termination of a contract with a service provider.

In fiscal year 2002, the Company issued 139,365 shares of restricted Common Stock in connection with the acquisition of LSTA and 32,738 shares of restricted Common Stock to management of Logisoft in exchange for Logisoft reaching certain performance criteria set forth in the purchase agreement governing the Company's acquisition of Logisoft.

During the year ended June 30, 2002, the Company issued 53,112 shares of restricted Common Stock in exchange for consulting and legal services and as a reimbursement of expenses for one employee. Included in this amount are 10,884 shares issued to two directors of the Company as reimbursement for their service to the Company as directors.

On June 17, 2002, the Company implemented a reverse stock split exchanging one share of Common Stock for every seven shares held by the Company's stockholders as of the close of business on June 14, 2002. As a result, an adjustment was recorded to reduce the recorded amount of Common Stock and increase additional paid in capital, each by $2,600,014. The reverse stock split was approved by the Company's shareholders at its annual meeting held on May 17, 2002. All of the share amounts in these financial statements have been adjusted for this reverse stock split.

During fiscal year 2002, the Company received a capital contribution of $200,000 in connection with the launch of its national franchising program for its home technology business.

During fiscal year 2002, the Company terminated a public relations contract pursuant to which it had issued 132,000 shares of restricted Common Stock during fiscal year 2001. Pursuant to the terms of the settlement, 89,143 shares were returned to the Company and were placed in treasury stock as of June 30, 2002.

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

NOTE 11. 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 FASB 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 FASB No. 123.

At the July 11, 2000 meeting, the shareholders approved the Company's 2000 Stock Option Plan (the "Option Plan"). The Company's Option Plan provides for the granting of either incentive stock options or non-qualified options to purchase shares of the Company's Common Stock to provide incentives to employees, directors and other individuals or companies at the discretion of the Board. The Plan allows participants to purchase Common Stock of the Company at prices set by the Board, but in the case of incentive stock options, at a price not less than fair market value at the date the option is granted. Unexercised options expire 10 years or less after the date of grant unless otherwise specified by the Board. At the January 10, 2001 annual shareholders meeting, the shareholders increased the number of shares available for the granting of incentive stock options under the Option Plan from 10,000,000 to 20,000,000 shares, of which 17,738,343 shares are still available for future awards at June 30, 2004.

Stock option and warrant activity was as follows.

	Options		
	Number	Weighted Average Exercise Price	Number
Outstanding-June 30, 2001..........	1,394,754	$ 3.48	2,238,589
Granted......................	255,715	0.56	203,571
Canceled or expired..........	329,237	0.71	0
Outstanding-June 30, 2002..........	1,321,232	4.20	2,442,160
Granted......................	1,372,500	0.34	0
Canceled or expired..........	283,982	4.75	112,500
Outstanding-June 30, 2003..........	2,409,750	2.10	2,329,660
Granted......................	290,000	1.15	4,135,803
Exercised....................	0	-	6,000
Canceled or expired..........	438,093	0.80	37,500
Outstanding-June 30, 2004..........	2,261,657	$ 2.22	6,421,963

The following summarizes the range of exercise prices and weighted-average remaining contractual life of outstanding options at June 30, 2004.

Range of Exercise Prices	Options Outstanding		
	Number Outstanding June 30, 2004	Weighted Average Remaining Life	Weighted Average Exercise Price
$ 0.55 - 1.26..................	1,198,857	7.30	$ 0.60
1.75 - 1.90..................	550,000	6.30	1.78
4.90 - 5.25..................	385,714	4.70	5.03
5.95 - 5.95..................	23,514	3.10	5.95
7.00 - 10.06..................	85,715	1.10	9.55
21.00 - 21.00..................	17,857	3.50	21.00
$ 0.55 - 21.00..................	2,261,657	6.30	$ 2.20

The following summarizes the range of exercise prices and weighted-average remaining contractual life of outstanding warrants at June 30, 2004.

Range of Exercise Prices	Warrants Outstanding		
	Number Outstanding June 30, 2004	Weighted Average Remaining Life	Weighted Average Exercise Price
$ 0.28 - 0.50.....................	817,768	0.60	$ 0.29
1.60 - 2.45.....................	4,148,660	1.50	2.40
3.50 - 5.67.....................	750,535	1.50	5.12
7.00 - 7.70.....................	8,571	0.00	7.58
12.25 - 12.25.....................	96,429	4.70	12.25
21.00 - 28.00.....................	600,000	2.60	27.04
$ 0.28 - 28.00.....................	6,421,963	1.60	$ 4.91

Pro forma information regarding net loss is required by FASB No. 123, which also requires that the information be determined as if the Company had accounted for its employee stock options granted subsequent to July 1, 1996 under the fair value method of that statement. The fair value for these options was estimated at the date of grant using the Black-Scholes Model with the following weighted average assumptions for fiscal year 2004; risk-free interest rate range of 2.72% to 4.76%; no dividend yield; volatility factor of the expected market price of the Company's Common Stock for 2004 and 2003 of $0.61 and $1.16, respectively; and an expected life of the option of three to five years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can naturally affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options.

NOTE 12. RELATED-PARTY TRANSACTIONS

The Company's travel services business entered into a one-year public relations contract with a company whose president's wife is an employee of the travel services business. This contract was terminated on August 26, 2004. During fiscal year 2004, $19,971 was paid for services rendered.

G. David Gordon, a Company stockholder, also occasionally acts as legal counsel to the Company. In consideration of legal fees, the Company issued Mr. Gordon 200,000 warrants (100,000 with an exercise price of $1.60 and 100,000 with an exercise price of $1.85) during the quarter ended December 31, 2003. Using the Black-Scholes model, the Company valued these warrants at $184,000 and expensed the entire amount in that quarter. In the quarter ended September 30, 2003, Mr. Gordon converted $308,738 of debt and accrued interest into 275,658 shares in accordance with the note's conversion feature. Prior to June 30, 2004, a company of which Mr. Gordon is the president and a 65% shareholder converted a note in the amount of $750,000 to 450,000 Common Stock shares in accordance with the note's conversion feature.

On April 19, 2004, Robert H. Brooks, Chairman of Hooters of America, Inc., Hooters Air and Pace Airlines, Inc. joined the Company's Board of Directors. In addition, Mr. Brooks made a $1,000,000 cash investment in the Company, and provided a waiver of the requirement of delivery of a letter of credit in the amount of $1,000,000 to Pace Airlines, Inc., a charter airline company that charters planes to the Company's travel services division. 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. On August 2, 2004, Mr. Brooks resigned from the Company's Board of Directors.

During the quarter ended March 31, 2004, the Company issued to a private investment group 50,000 Common Stock warrants at an exercise price of $2.44, in consideration for a $2 million credit facility. Company Director K. Wesley M. Jones, Sr. has a 25% ownership stake in this private investment group. 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. In fiscal year 2004, the Company paid the private investment group interest of $80,000 (12% interest on the $2 million credit facility).

NOTE 13. BUSINESS SEGMENT INFORMATION

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

Year ended June 30, 2004:	Aviation Travel Services	Technology Solutions	Cor
Revenue	$ 165,395	$ 15,412	$
Loss from continuing operations (1)	(4,681)	(588)	
Identifiable assets	72,258	11,171	
Capital expenditures	638	95	
Goodwill	15,990	7,917	
Interest expense	737	74	
Depreciation and amortization	591	204	

Year ended June 30, 2003:	Aviation Travel Services	Technology Solutions	Cor
Revenue	$ 62,607	$ 11,002	$
Income (loss) from continuing operations	888	(340)	
Identifiable assets (2)	7,443	10,281	
Capital expenditures	197	74	
Goodwill	939	7,702	
Interest expense	117	1	
Depreciation and amortization	101	249	

Year ended June 30, 2002:	Aviation Travel Services	Technology Solutions	Cor
Revenue	$ 27,273	$ 10,294	$
Loss from continuing operations	(946)	(609)	
Identifiable assets (2)	5,743	11,197	
Capital expenditures	21	67	
Goodwill	939	7,631	
Interest expense	69	24	
Depreciation and amortization	76	229	

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(1) Excludes assets of discontinued operations

(2) The corporate and technology solutions segments include impairment losses of $1,000,000 and $199,690, respectively, in 2004.

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

NOTE 14. CONTINGENCIES AND COMMITMENTS

Commitments

The Company leases office space under non-cancelable office leases. The future minimum lease payments required under these leases at June 30, 2004 are as follows (in thousands).

Fiscal Year	Total
2005	$ 1,406
2006	1,355
2007	1,372
2008	1,203
2009	1,227
Thereafter	544
	$ 7,107

Rent expense under operating leases aggregated $1,013,830, $398,960 and $346,983 for the years ended June 30, 2004, June 30, 2003 and June 30, 2002, respectively.

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.

Subsequent Events

Termination of Planned Acquisition

On August 17, 2004, the Company announced that it had terminated its previously announced (May 11, 2004) acquisition of Response Personnel, Inc. and certain related affiliates. Response is a leading provider of professional staffing services. RCG plans to focus its future growth and acquisition initiatives within the leisure travel and entertainment industry.

Securities Purchase Agreement

The Company entered into a Securities Purchase Agreement, dated September 13, 2004, with institutional and accredited investors (collectively the "Investors"). Pursuant to the terms of the Securities Purchase Agreement, the Company is to initially issue the following securities to the Investors in consideration for the Investors making payment to the Company in the aggregate amount of $4,300,000: (i) 4,300 shares of Series A 6% Convertible Preferred Stock, with a stated value of $1,000 per share, which shares are initially convertible into shares of Common Stock of the Company at a fixed price of $0.94 per share, subject to adjustment ("Set Price") and that are, subject to certain conditions, subject to forced conversion by the Company at any time the common shares of the Company have a volume weighted average price ("VWAP") which exceeds 200% of the Set Price for the preceding 10 trading days, (ii) Warrants to purchase approximately 1,143,617 shares of Common Stock of the Company at an exercise price of $1.20 per share, exercisable commencing 6 months after the closing date until the date that is 3 years after such date, with anti-dilution

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

provisions subject to a $1 floor, and that are, subject to certain conditions, callable by the Company at any time the common shares of the Company have a VWAP which exceeds 200% of the exercise price for the preceding 20 trading days, and (iii) Additional Investment Rights to purchase approximately 3,430,851 shares of Common Stock of the Company at an exercise price of $1.03 per share, exercisable commencing 6 months after the closing date until the earlier of (a) the later of the date that is 6 months after the effective date of the registration statement covering the shares and the date that is 1 year after the closing date, and (b) September 13, 2006, with standard anti-dilution, and that are, subject to certain conditions, callable by the Company at any time the common shares of the Company have a VWAP greater than or equal to 160% of the exercise price for the preceding 20 trading days.

The transaction was approved by the Company's Board on August 25, 2004, and closed on September 14, 2004.

On September 14, 2004, the Company filed an amended Certificate of Incorporation with the Secretary of State of the State of Delaware. The Certificate amends the Company's Certificate of Incorporation to fix the preferences, rights, and limitations of the Series A 6% Convertible Preferred Stock, as described above.

In connection with the aforementioned Securities Purchase Agreement, the Exercise Price to holders of 2.5 million Common Stock Purchase Warrants (dated October 31, 2003) has been reduced from $2.442 per share to $0.94 per share, pursuant to the Warrant Agreement.

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

NOTE 15. QUARTERLY FINANCIAL DATA

	Quarterly Financial Data (Unaudited) (in thousands, except per-share data)		
Fiscal Year 2004	Sept. 30	Dec. 31	Mar. 31
Revenues	$ 19,113	$ 38,881	$ 52,243
Gross Profit	1,267	3,289	972
Operating income (loss) from continuing operations.	(328)	(2,157)	(6,399)
Income (loss) from continuing operations	(160)	(2,386)	(6,623)
Income (loss) from discontinued operations	(730)	(5,651)	(1,548)
Net income (loss)	$ (890)	$ (8,037)	$ (8,171)

Income (loss) per common share
from continuing operations:

Basic	(0.01)	(0.014)	(0.35)
Diluted	(0.01)	(0.014)	(0.35)
Net income (loss) per common share:			
Basic	(0.06)	(0.46)	(0.43)
Diluted	(0.06)	(0.46)	(0.43)

Fiscal Year 2003	Sept. 30	Dec. 31	Mar. 31
Revenues	$ 18,288	$ 16,218	$ 17,660
Gross Profit	1,412	1,061	1,084
Operating income (loss) from continuing operations	(25)	(259)	(548)
Income (loss) from continuing operations	359	(155)	(592)
Income (loss) from discontinued operations	(509)	(376)	(802)
Net income (loss)	$ (150)	$ (531)	$ (1,394)
Income (loss) per common share from continuing operations:			
Basic	$ 0.03	$ (0.01)	$ (0.05)
Diluted	$ 0.03	$ (0.01)	$ (0.05)
Net income (loss) per common share:			
Basic	$ (0.01)	$ (0.04)	$ (0.11)
Diluted	$ (0.01)	$ (0.04)	$ (0.11)

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

NOTE 16. RECLASSIFICATIONS

Certain reclassifications were made to the originally issued financial statements, including the reclassification of certain amounts from continuing to discontinued operations in the consolidated statements of cash flows for the three years ended June 30, 2004 and other minor typographical and drafting errors.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Forms 8-K confirming the change in the registrant's certifying accountants (Item

4) were filed on March 3, 2004 and April 2, 2004.

ITEM 9A. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective based on their evaluation of such controls and procedures as of June 30, 2004. There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation that occurred during the fourth quarter of the Company's fiscal year ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below for each Executive Officer or Director of the Company is his/her name, age (at October 8, 2004), position and office(s) held, and a brief description of business experience during the past five years.

Michael D. Pruitt, 44, became the RCG's Chief Executive Officer and President on November 8, 2000. He has served as a Director of the Company since October 3, 2000, and the Company's Chairman from July 2001 to February 2003. Mr. Pruitt founded Avenel Ventures, Inc., ("AVI") a business development company, and has served as President, Chief Executive Officer and Director of AVI since its formation in June 2000. From May 1999 to June 2000, Mr. Pruitt was involved in founding Avenel Financial Group, Inc., a financial services firm specializing in e-commerce and technology. From October 1997 to May 1999, Mr. Pruitt was Executive Vice President of Marketers World International. He was an independent consultant from January 1997 to October 1997, and was Chief Operating Officer of Ty Pruitt Trucking, Inc. from January 1992 to January 1997. Mr. Pruitt received a business degree from Coastal Carolina University in Conway, South Carolina.

Jeffrey F. Willmott, 56, has served as a Director of the RCG since October 17, 2002, and Chairman of the Board since February 19, 2003. From 2001 to 2002, he was Chairman and Chief Executive Officer of EKN Asset Management, a registered investment advisory firm in New York City. From 1999 to 2000, Mr. Willmott served as the managing director of Trenwith Securities, a middle-market investment bank, where he was responsible for the origination and execution of corporate finance engagements. From 1991 to 1999, he was a Senior Vice President at Warburg Dillon Read (now UBS Warburg), where he was responsible for business development. From 1983 to 1990, he was a regional director of sales and marketing at Westinghouse Broadcasting. Mr. Willmott holds Bachelor's and Master's degrees in Business Administration.

Melinda Morris Zanoni, 35, joined RCG in November 2000 as Executive Vice President. She leads mergers and acquisitions, investments, partner-company relationships and joint ventures for the Company. Prior to joining RCG, Ms. Zanoni founded AVI in June 2000 with Michael Pruitt. Formerly an Of Counsel attorney with Nelson Mullins Riley & Scarborough, LLP, Ms. Zanoni concentrated in corporate, mergers and acquisitions, venture capital and commercial finance

law. She represented public and private Internet and technology companies, participating in the negotiating, structuring and closing of transactions valued in excess of $21 billion. Prior to her employment with Nelson Mullins, Ms. Zanoni was a corporate attorney with Fagel & Haber in Chicago. She earned her Bachelor's Degree in Economics and Business from the University of Illinois at Champaign-Urbana and her law degree from the University of Illinois College of Law.

William W. Hodge, CPA, 52, joined RCG's executive management team in January of 2004 as Chief Financial Officer. He is a seasoned financial executive with over 25 years of experience in various financial and accounting roles. Before joining RCG, Mr. Hodge spent three years as Chief Financial Officer for Hampshire Group, Limited (NASDAQ: HAMP), where he was responsible for establishing and maintaining Hampshire's financial policies and procedures. Prior to Hampshire, Mr. Hodge spent approximately 16 years at American Fast Print, beginning as Vice President, Finance, and eventually being promoted to Chief Financial Officer. He also spent 10 years as Audit Manager at Ernst & Young LLP, where he provided an array of audit, tax and business advisory services to a variety of clients. Mr. Hodge earned a Bachelor of Science degree from Mars Hill College near Asheville, North Carolina.

Dr. James A. Verbrugge, 64, has served as a Director of RCG since January 11, 1999. Dr. Verbrugge is a Professor Emeritus of Finance at the University of Georgia where he has been employed since 1968. He is also the Director of the Center for Strategic Risk Management in the Terry College of Business at the University of Georgia and is actively involved in executive education programs. He has been a director of Crown Crafts, Inc. since July 2001, and of InterCept, Inc. since February 2004. Dr. Verbrugge holds a Ph.D., and Master's and Bachelor's degrees.

P. Roger Byer, CPA, 59, has served as a Director of RCG since June 2003. From May 2001 to September 2002, Mr. Byer served as Chief Executive Officer and President of Stellex Aerostructures, Inc., a manufacturer of commercial and defense radio frequency electronics and military machined aerostructure components. From July 1997 to September 2000, Mr. Byer was the Chief Operating Officer of Mentmore Holdings Corporation, a New York based private equity firm with aggregate portfolio companies generating over $1 billion in revenues. Mr. Byer also served as Chief Financial Officer for several of the portfolio companies. From 1986 to 1997, he served as Vice President and CFO for KDI Corporation. Mr. Byer holds Bachelor's Degrees in Economics and Accounting, and a Master's Degree in Business Administration in Accounting from the Wharton School at the University of Pennsylvania. He is also an alumnus of the Darden School at the University of Virginia.

Wesley M. Jones, 47, was appointed to the Board in April 2004. He is Managing Partner of Charlotte-based Five Oaks Capital Partners, LLC, which he founded in 2001. Prior to founding his company, Mr. Jones was employed by Charlotte-based First Union Corp. (now Wachovia Corp.) for approximately ten years, eventually becoming Managing Director of the Fixed Income Trading department and First Union's Conduit Programs. Prior to working at First Union, Mr. Jones served as Senior Vice President with Interstate Securities. He began his investment career in the investment-banking group of Union Planters Corp. in 1982. Mr. Jones is a Board member and investor in Newgame Communications, Inc. and Ocean Broadcasting Inc., as well as the managing member of Shetland Investment Group, LLC. He attended the University of Tennessee and the College of Engineering at the University of Memphis.

J. Michael Carroll, 56, has served as a Director of RCG since January 2004. He

currently owns and operates a sales and training consulting firm based in Richmond, Virginia. Mr. Carroll previously spent 22 years in the distribution business; 19 of those years were in computer products distribution. From 1997 to 1999, he was a division president at Corporate Express, a publicly traded business-to-business office products and service provider. In 1978, Mr. Carroll founded MicroMagnetic, Inc., a computer-supply distribution company that he sold to Corporate Express in 1997. Mr. Carroll holds a Bachelor's Degree in Business Management from The College of William & Mary in Williamsburg, Virginia, and a Master's Degree in Business Administration from Virginia Commonwealth University.

There are no family relationships among any of the Executive Officers or Directors of the Company. No arrangement or understanding exists between any executive officer or any other person pursuant to which any executive officer was selected as an executive officer of the Company. Executive officers of the Company are elected or appointed by the Board and hold office until their successors are elected or until their death, resignation or removal.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that P. Roger Byer is an "audit committee expert" as defined in Item 401(h) of Regulation S-K. Mr. Byer's relevant experience is noted in the previous section. RCG has and will continue to have three Audit Committee members, each of whom satisfies the independence standards specified in Amex Section 121A and Rule 10A-3 of the Securities Exchange Act of 1934.

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities and Exchange Act of 1934, as amended, requires the following person(s) to file with the SEC any and all initial reports of ownership and reports of changes in ownership of such securities of the Company: Directors, Executive Officers and persons who own beneficially more than 10 percent of a registered class of the Company's equity securities. Directors, Executive Officers and greater-than-10-percent stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports they file. To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company, all Directors, Executive Officers and greater-than-10-percent beneficial owners complied with applicable Section 16(a) filing requirements during the fiscal year ended June 30, 2004.

CODE OF BUSINESS CONDUCT AND ETHICS

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company's Directors, Officers and employees. This Code of Business Conduct and Ethics is attached as an exhibit to this filing and is published on the Company's Web site. Upon request, the Company will provide any stockholder a copy of its Code of Ethics. Requests should be sent in writing to RCG Companies Incorporated, 6836 Morrison Boulevard, Suite 200, Charlotte, NC 28211. Attention: Secretary.

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ITEM 11. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

For the fiscal years ended 2004, 2003 and 2002, the following table sets forth the cash and non-cash compensation awarded, earned or paid by the Company to all individuals serving as Chief Executive Officer of the Company at any time during fiscal year 2004 and all Executive Officers of the Company who received salary and bonuses in excess of $100,000 during fiscal year 2004 (collectively, the "Named Executives").

Name and Principal Position	Fiscal Year	Salary	Bonus	Long-T Compens Stoc Option
Jeffrey F. Willmott, Chairman (2)..............	2004	$ 120,000	$ -	
	2003	40,000	-	
	2002	-	-	
Michael D. Pruitt, President & CEO (3)..........	2004	$ 180,000	$ -	
	2003	30,000	-	
	2002	-	-	
Melinda Morris Zanoni, Executive Vice President (4)..........................	2004	$ 160,000	$ -	
	2003	160,000	-	
	2002	147,167	-	

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(1) The stock options listed above are fully vested and have an exercise price at or above the fair market value of the Common Stock on the date of grant of such options, unless otherwise noted.

(2) Mr. Willmott's employment contract dated April 15, 2003 provides for an annual base salary of $120,000. During fiscal year 2003, the Company did not pay any cash compensation to Mr. Willmott, but rather accrued $40,000 for services rendered from March 2003 through June 2003. During fiscal year 2004, the Company accrued an additional $20,000 and paid Mr. Willmott $21,500, leaving a balance owed of $38,500. The Company anticipates paying this compensation to Mr. Willmott during fiscal year 2005. Beginning September 1, 2003, Mr. Willmott has been paid the salary stipulated in his employment contract.

(3) Mr. Pruitt's employment contract dated November 7, 2002 provides for an annual base salary of $180,000. Mr. Pruitt agreed to forego his salary in fiscal year 2002 and elected to receive only a portion of his 2003 salary, which was paid directly to Mr. Pruitt and to a Company owned by Mr. Pruitt.

(4) Ms. Zanoni's employment contract, dated November 7, 2002, provides for an annual base salary of $160,000.

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The following table sets forth information regarding the grant of stock options to the Named Executives during the fiscal year ended June 30, 2004.

Employee Name & Title	Number of Securities Underlying Options Granted	Percent of Total Options Granted	Exercise Price	Expiration Date
William W. Hodge, CFO	50,000	28.6%	$1.90	1/5/2011

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(1) The above information concerning five- and ten-percent assumed annual rates of compounded stock price appreciation is mandated by the Securities and Exchange Commission. There is no assurance provided to any Executive Officer or other Optionee that there will be appreciation of the stock price over the option term, or that the Optionee will realize any gains with respect to the options.

The following table sets forth information concerning each exercise of options during the last completed fiscal year by each of the Named Executives and the value of unexercised options held by the Named Executives as of June 30, 2004.

Name	Shares Acquired on Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options at 6/30/04 Exercisable/Unexercisable
Jeffrey F. Willmott.....	0	0	175,000/-0-
Michael D. Pruitt.......	0	0	246,428/-0-
Melinda Morris Zanoni...	0	0	210,714/-0-

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(1) Calculated by determining the difference between the fair market value of the shares of Company Common Stock underlying this option and the exercise price of such option on the date of exercise.

(2) The dollar values of the Company's stock options are calculated by determining the difference between the fair market value of the shares of the Company's Common Stock underlying the options at June 30, 2004 and the exercise price of such options.

COMPENSATION OF DIRECTORS

Directors of the Company who are not employees of the Company receive compensation of $1,000 per regular Board meeting, $750 per telephonic Board meeting, and $500 per Committee meeting not held on the same day as a regular or telephonic Board meeting. The Board expects to meet at least on a quarterly basis in fiscal year 2005. Directors are also entitled to reimbursement of reasonable out-of-pocket expenses incurred by them in attending Board meetings. In fiscal year 2004 and 2003, the Company expensed $16,250 and $21,250, respectively, for Director fees.

In October 2002, the Board of Directors approved stock options for each

independent Director to purchase 85,000 shares of Common Stock at an exercise price of $0.55, vesting quarterly over one year. Dr. Verbrugge received an additional 15,000 options for serving as the Chairman of the Audit Committee. Mr. Byer was awarded 85,000 options at an exercise price of $0.55 in July 2003. These options vest quarterly over one year. At the dates these option grants occurred, the fair market value of Company Common Stock was at or below $0.55. In February 2004, Mr. Carroll was awarded 30,000 options at an exercise price of $1.84. These options were fully vested in June 2004.

EMPLOYMENT CONTRACTS

On November 7, 2002, the Company entered an employment agreement (the "Pruitt Agreement") with Michael D. Pruitt to serve as the Company's President and Chief Executive Officer. The Pruitt Agreement provides for an annual base salary of $180,000 and an initial term of two (2) years. After the initial term, the Pruitt Agreement renews automatically for one (1) year unless either party gives 60 days' written notice. Mr. Pruitt is also entitled to receive an annual bonus in the amount and manner approved by the Board (or by the Compensation Committee thereof). Upon a termination following a change of control, resignation with cause, termination without cause or termination for disability, Mr. Pruitt will be entitled to severance equal to 12 months' salary and health benefits.

On April 15, 2003, the Company entered an employment agreement (the "Willmott Agreement") with Jeffrey F. Willmott to serve as the Company's Chairman of the Board. The Willmott Agreement provides for an annual base salary of $120,000 and an initial term of one (1) year. After the initial term, the Willmott Agreement renews automatically for one (1) year unless either party gives 30 days' written notice. Mr. Willmott is also entitled to receive an annual bonus in the amount and manner approved by the Board (or by the Compensation Committee thereof). Upon a termination following a change of control, resignation with cause, termination without cause or termination for disability, Mr. Willmott will be entitled to severance equal to one (1) month's salary and health benefits.

On November 7, 2002, the Company entered an employment agreement (the "Zanoni Agreement") with Melinda Morris Zanoni to serve as the Company's Executive Vice President. The Zanoni Agreement provides for an annual base salary of $160,000 and an initial term of two (2) years. After the initial term, the Zanoni Agreement renews automatically for one (1) year unless either party gives 60 days' written notice. Ms. Zanoni is also entitled to receive an annual bonus in the amount and manner approved by the Board (or by the Compensation Committee thereof). Upon a termination following a change of control, resignation with cause, termination without cause or termination for disability, Ms. Zanoni will be entitled to severance equal to 12 months' salary and health benefits.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

With respect to the beneficial ownership of the Company's Common Stock as of October 8, 2004, the following table sets forth certain information by: (i) each person known by the Company to beneficially own more than five percent of the outstanding shares of Common Stock; (ii) each of the Company's Directors; (iii) each of the Company's named Executive Officers included in the Summary Compensation Table included elsewhere herein; and (iv) all of the Company's current directors and executive officers as a group. Except as otherwise noted, the person or entity named has sole voting and investment power over the shares

indicated.

Name	Shares of Common Stock Beneficially Owned (1) Number	Percent (2)
Michael D. Pruitt +++(3).......................	1,565,191	7.3%
Melinda Morris Zanoni +(4).....................	496,428	2.3
Wesley M. Jones ++(5)..........................	260,777	1.2
P. Roger Byer ++(6)............................	218,929	1.0
Jeffrey F. Willmott +++(7).....................	216,000	1.0
Dr. James A. Verbrugge ++(8)...................	201,547	*
J. Michael Carroll ++(9).......................	33,000	*
All Current Executive Officers and Directors as a Group (Seven Persons).........	2,991,872	13.5%

+ Executive Officer of the Company

++ Director of the Company

* Less than 1%

(1) Information as to beneficial ownership of Common Stock has been furnished to the Company either by or on behalf of the indicated person or is taken from reports on file with the SEC.

(2) As of October 8, 2004, there were 21,170,290 shares of Common Stock outstanding.

(3) Includes 989,565 shares of Common Stock and 246,428 options owned directly by Mr. Pruitt. Includes 318,142 owned by Avenel Financial Group, Inc., which is 100% owned by Mr. Pruitt. Includes 8,871 shares of Common Stock owned by The Housman Foundation, of which Mr. Pruitt is the trustee. Includes 2,185 shares owned by Mr. Pruitt's spouse. Mr. Pruitt does not have voting or investment power with respect to the shares owned by his spouse. Includes 8,871 shares in three separate custodian accounts in the names of Mr. Pruitt's three children. Mr. Pruitt is the trustee of each of these custodian accounts.

(4) Consists of 285,714 shares of Common Stock and 210,714 shares issuable upon exercise of options.

(5) Includes 248,277 shares of Common Stock. Represents 12,500 shares issuable upon exercise of warrants.

(6) Includes 133,929 restricted shares of Common Stock and 85,000 shares issuable upon exercise of options. Mr. Byer purchased the 133,929 shares of restricted Common Stock in a September/October 2003 private placement. The purchase price of the Common Stock was $1.12.

(7) Represents 175,000 shares issuable upon exercise of options. Includes 41,000 shares of Common Stock, of which 25,000 shares owned by Mr. Willmott's spouse. Mr. Willmott has neither voting nor investment power over the shares owned by his spouse.

(8) Consists of 15,833 shares of Common Stock and 185,714 shares issuable upon exercise of options.

(9) Represents 30,000 shares issuable upon exercise of options. Includes 3,000 shares of Common Stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company's travel services business entered into a one-year public relations contract with a company whose president's wife is an employee of the travel services business. This contract was terminated on August 26, 2004. During fiscal year 2004, $19,971 was paid for services rendered.

G. David Gordon, a Company stockholder, also occasionally acts as legal counsel to the Company. In consideration of legal fees, the Company issued Mr. Gordon 200,000 warrants (100,000 with an exercise price of $1.60 and 100,000 with an exercise price of $1.85) during the quarter ended December 31, 2003. Using the Black-Scholes model, the Company valued these warrants at $184,000 and expensed the entire amount in that quarter. Prior to June 30, 2004, a company of which Mr. Gordon is the president and a 65% shareholder converted a note in the amount of $750,000 to 450,000 Common Stock shares in accordance with the note's conversion feature.

On April 19, 2004, Robert H. Brooks, Chairman of Hooters of America, Inc., Hooters Air and Pace Airlines, Inc. joined the Company's Board of Directors. In addition, Mr. Brooks made a $1,000,000 cash investment in the Company, and provided a waiver of the requirement of delivery of a letter of credit in the amount of $1,000,000 to Pace Airlines, Inc., a charter airline company that charters planes to the Company's travel services division. 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. On August 2, 2004, Mr. Brooks resigned from the Company's Board of Directors.

During the quarter ended March 31, 2004, the Company issued to a private investment group 50,000 Common Stock warrants at an exercise price of $2.44, in consideration for a $2 million credit facility. Company Director K. Wesley M. Jones, Sr. has a 25% ownership stake in this private investment group. 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. In fiscal year 2004, the Company paid the private investment group interest of $80,000 (12% interest on the $2 million credit facility).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following is a summary of the fees billed to RCG by BDO Seidman, LLP and Crisp Hughes Evans LLP for fiscal years ended June 30, 2004 and June 30, 2003:

	Year Ended June 30, 2004	Year Ended June 30, 2003
Audit fees (1)	$ 289,495	$ 120,000
Audit-related fees (2)	354,980	-
Tax fees (3)	40,000	68,930
All other fees (4)	4,475	3,500
Total fees	$ 688,950	$ 192,430

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(1) Consists of charges billed for professional services that are normally provided by our auditors. In connection with statutory and regulatory filings or engagements, such services are rendered for the audit of the Company's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services.

(2) Consists of fees billed for due diligence, audits of acquisitions and prior year audits.

(3) Consists of fees billed for professional services for tax compliance, advice and planning. These services include assistance regarding federal, state and international tax compliance, assistance with tax reporting

requirements and audit compliance, and mergers and acquisitions tax compliance.

(4) Consists of fees for products and services other than the aforementioned services. There were no management consulting services provided.

In accordance with Section 10A(i) of the Securities Exchange Act of 1934, before the Company engages its registered public accounting firm to render audit or permitted non-audit services, the engagement is approved by the Audit Committee. The Audit Committee approved all of the aforementioned fees.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The following consolidated financial statements are incorporated by reference in Part II, Item 8:

- Report of Independent Registered Public Accounting Firm;
- Consolidated Balance Sheets as of June 30, 2004 and June 30, 2003;
- Consolidated Statements of Operations for the years ended June 30, 2004, June 30, 2003 and June 30, 2002;
- Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 2004, June 30, 2003 and June 30, 2002;
- Consolidated Statements of Cash Flows for the years ended June 30, 2004, June 30, 2003 and June 30, 2002; and
- Notes to the Consolidated Financial Statements.

(a) (2) Financial Statement Schedules

- Report of Independent Registered Public Accounting Firm on Financial Statement Schedules
- Schedule II - Valuation and Qualifying Accounts

All other financial statement schedules are omitted for the reasons that they are either not applicable or not required or because the information required is contained in the consolidated financial statements or notes thereto which are incorporated by reference in Part II, Item 8.

(a) (3) Exhibits

Exhibit Number	Exhibit Description
2.1	Stock Purchase Agreement dated as of August 16, 2000 between the Company, Michael Pruitt, and Darek Childress (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on (September 22, 2000).

2.2	Stock Purchase Agreement dated as of August 11, 2000 between the Company and Caliente Consulting (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 22, 2000).
2.3	Share Exchange Purchase Agreement dated as of November 8, 2000 between the Company and Avenel (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 10-QSB for the quarter ended December 31, 2000 filed on February 14, 2001).
2.4	Stock Purchase Agreement between the Company and the majority of the stockholders of Lifestyle (incorporated by reference to the Company's Current Report on Form 8-K filed on April 18, 2001).

Exhibit Number	Exhibit Description
2.5	Stock Purchase Agreement dated as of March 16, 2001 between the Company and Glenn Barrett, Jr. (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on April 18, 2001).
2.6	Stock Purchase Agreement dated as of March 31, 2001 between the Company and Brandon Holdings, Inc. (incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed on April 18, 2001).
2.7	Agreement and Plan of Merger dated as of June 5, 2001 between the Company, Logisoft Acquisition Corporation and the individuals listed on Exhibit A thereto (incorporated by reference to Exhibit 2.1 the Company's Current Report on Form 8-K filed on June 13, 2001).
2.8	Joinder to the Merger Agreement executed by Logisoft (incorporated by reference to Exhibit 2.2 the Company's Current Report on Form 8-K filed on June 13, 2001).
2.9	Asset Purchase Agreement dated as of June 20, 2001, by and among Greater Atlanta Alarm Services, Inc., the Company, Glenda Watson and David Watson (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 14, 2001).
2.10	Stock Purchase Agreement dated as of May 15, 2001 between the Company and Brikor, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 17, 2001).
2.11	Agreement and Plan of Merger dated as of August 30, 2002 among the Company, LST, Inc., Lifestyle Innovations, Inc. and LFSI Merger Corporation (incorporated by reference to Exhibit 2.1 of the Company's Current report on Form 8-K filed on September 20, 2002).

3.1	Restated Certificate of Incorporation of the Company dated as of January 19, 2001 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly report on Form 10-QSB for the quarter ended December 31, 2000 filed on February 14, 2001).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 filed on September 28, 2000).
3.3	Certificate of Amendment of Restated Certificate of Incorporation of eResource Capital Group, Inc. dated June 17, 2002
4.1	Registration Rights Agreement between the Company and Worldspan, L.P. dated as of June 26, 2000 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 filed on September 28, 2000).
4.2	Registration Rights Agreement between the Company, Four Corners Capital, LLC and DC Investment Partners Exchange Fund, L.P. dated as of January 23, 2001 (incorporated by reference to Exhibit 4.1 of the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000 filed on February 14, 2001).

Exhibit Number	Exhibit Description
4.3	Registration Rights Agreement between the Company and Acqua Wellington Value Fund, Ltd. Dated as of January 23, 2001 (incorporated by reference to exhibit 4.2 of the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000 filed on February 14, 2001).
4.4	flightserv.com 2000 Stock Option Plan (incorporated by reference to exhibit B to the Company's Definitive Proxy Statement on Schedule 14A filed on June 19, 2000).
4.5	Registration Rights Agreement between the Company and each of the stockholders of Lifestyle (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on April 18, 2001).
10.1	Form of Officer/Director Non-Qualified Option Agreement dated as of July 2, 1999 (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended June 30, 1999 filed on September 28, 1999).
10.2	Schedule of Option Agreements granted in February, April and July 1999 (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended June 30, 1999 filed on September 28, 1999).
10.3	Form of Officer/Director Non-Qualified Option Agreement dated December 2, 1999 (incorporated by reference to

Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 1999 filed on February 14, 2000).

10.4 Schedule of Option Agreements granted December 2, 1999 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 1999 filed on February 14, 2000).

10.5 Employment Agreement between the Company and Todd Bottorff (represents a compensatory plan or arrangement) (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 filed on September 28, 2000).

10.6 Agreement between the Company and Arthur G. Weiss dated as of July 27, 2000 (represents a compensatory plan or arrangement) (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 filed on September 28, 2000).

10.7 Agreement between the Company and C. Beverly Lance dated as of July 27, 2000 (represents a compensatory plan or arrangement) (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 filed on September 28, 2000).

10.8 Consulting Agreement between the Company and Todd Bottorff dated as of January 17, 2001 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000 filed on February 14, 2001).

10.9 Employment Agreement between the Company and Michael D. Pruitt dated as of November 8, 2000 (represents a compensatory plan arrangement) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000 filed on February 14, 2001).

Exhibit Number	Exhibit Description
10.10	Employment Agreement between the Company and Ms. Melinda Morris Zanoni dated as of November 8, 2000 (represents a compensatory plan or arrangement) (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000 filed on February 14, 2001).
10.11	General Release and Settlement Agreement between the Company and Four Corners Capital, LLC and DC Investment Partners Exchange Fund, L.P. dated as of January 23, 2001 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000 filed on February 14, 2001).

10.12	General Release and Settlement Agreement between the Company and Acqua Wellington Value Fund, Ltd. dated as of January 23, 2001 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000 filed on February 14, 2001).
10.13	Employment Agreement between the Company and Michael D. Pruitt dated as of November 7, 2002 (represents a compensatory plan arrangement) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2002, filed on February 14, 2003).
10.14	Employment Agreement between the Company and Ms. Melinda Morris Zanoni dated as of November 7, 2002 (represents a compensatory plan or arrangement) (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2002 filed on February 14, 2003).
10.15	Employment Agreement between the Company and Jeffery F. Willmott dated as of April 15, 2003 (represents a Compensatory plan arrangement (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2003, filed on May 15, 2003).
10.16	Amendment to Employment Agreement between the Company and Michael D. Pruitt dated as of April 2, 2003 (incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended June 30, 2003 filed on October 14, 2003).
10.17	Amendment to Employment Agreement between the Company and Melinda Morris Zanoni dated as of April 2, 2003 (incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended June 30, 2003 filed on October 14, 2003).
10.18	Asset purchase agreement by and among VE Holdings, Inc., SunTrips, Inc., FS Tours, Inc. and FS SunTours, Inc. dated as of October 17, 2003 (incorporated by reference to exhibit 10.1 to the Company's current report on Form 8-k filed on October 20, 2003).
10.19	amended and restated asset purchase agreement by and among VE Holdings, Inc., SunTrips, Inc., FS Tours, Inc. and FS SunTours, Inc. dated as of October 31, 2003 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 17, 2003).

Exhibit Number	Exhibit Description
10.20	Securities Purchase Agreement among eResource Capital Group, Inc. and the purchasers identified on the signature

pages thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 17, 2003).

10.21 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 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 filed on May 14, 2004).

10.22 Securities Purchase Agreement dated as of September 13, 2004, by and among RCG Companies Incorporated and the purchasers identified on the signature pages thereto (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 16, 2004).

10.23 RCG Companies Incorporated, Certificate of Designation of References, Rights and Limitations of Series A 6% Convertible Preferred Stock (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed on September 16, 2004).

14.1 Code of Business Conduct and Ethics

16.1 Change in Accountants-Letter from Ernst & Young dated February 22, 2002 (incorporated herein by reference to Exhibit 16.1 to the Company's Current Report on Form 8-K/A filed on February 22, 2002).

21.1 Subsidiaries of the Company

23.1 Consent of BDO Seidman, LLP

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

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

32.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
RCG Companies Incorporated and Subsidiaries
Charlotte, North Carolina

The audits referred to in our report dated October 8, 2004 relating to the consolidated financial statements of RCG Companies Incorporated and Subsidiaries, which is contained in Item 8 of this Form 10-K included the audit of the financial statement schedules listed in the accompanying index. Our report contains an explanatory paragraph regarding the Company's ability to continue as a going concern. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an

opinion on these financial statement schedules based upon our audits.

In our opinion, such financial statement schedules present fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman
BDO Seidman, LLP
Charlotte, North Carolina

October 27, 2004

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RCG COMPANIES INCORPORATED AND SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	Balance at Beginning of Year	Charged to Cost and Expenses	Deductions(1)
Year Ended June 30, 2002			
Allowance for Doubtful Accounts.......	$ 81,073	$ 209,497	$ 67,987
Year Ended June 30, 2003			
Allowance for Doubtful Accounts.......	222,583	5,917	116,676
Year Ended June 30, 2004			
Allowance for Doubtful Accounts.......	111,824	157,087	10,934

(1) Write-off of doubtful accounts

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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: October 13, 2004 By: /s/ Michael D. Pruitt
Michael D. Pruitt
President and Chief Executive Officer
(principal executive officer)

Date: October 13, 2004 By: /s/ Jeffrey F. Willmott

Jeffrey F. Willmott
Chairman of the Board

Date: October 13, 2004 By: /s/ William W. Hodge

William W. Hodge
Chief Financial Officer
(principal accounting officer)

Date: October 13, 2004 By: /s/ Dr. James A. Verbrugge

Dr. James A. Verbrugge
Director

Date: October 13, 2004 By: /s/ P. Roger Byer

P. Roger Byer
Director

Date: October 13, 2004 By: /s/ J. Michael Carroll

J. Michael Carroll
Director

Date: October 13, 2004 By: /s/ Wesley M. Jones

Wesley M. Jones
Director