ERESOURCE CAPITAL GROUP INC
Form 10KSB
October 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________________ to ____________

Commission file number 1-8662

eRESOURCE CAPITAL GROUP, INC.

(Name of small business issuer in its charter)

DELAWARE	23-2265039
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6836 MORRISON BLVD., SUITE 200, CHARLOTTE, NC	28211
(Address of principal executive offices)	(Zip Code)

Issuer 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 registered
Common Stock, par value, $0.04	American Stock Exchange

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [ ]

The issuer s revenues for its most recent fiscal year (12 months ending June 30, 2003): $75,824,171

The aggregate market value of the voting common equity held by non-affiliates as of September 29, 2003 as $26,241,000.

The number of shares outstanding of each of the issuer s Common Stock as of September 29, 2003: 15,553,551

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

eResource Capital Group, Inc. and its subsidiaries (RCG , We or the Company) is a network of travel and entertainment 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 aviation travel services, home technology and technology solutions businesses and a call center operation. RCG is a Delaware corporation incorporated in 1982. The Company s fiscal year ends on June 30.

In fiscal 2001, the Company brought in new executive management and modified its business plan to focus on acquiring and enhancing travel and entertainment and technology services companies and, as a result, acquired companies in the telecommunications call center, home technology and technology solutions business segments. 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. This air travel services business generated $62 million and $27 million in revenue in fiscal years 2003 and 2002, respectively, and has contracts with two affiliates of the largest air inclusive tour operator in the world. As a result of this growth, the Company has increased its focus on the travel and entertainment sector and plans to continue to acquire substantial interests in, operate and enhance the value of expansion phase companies operating in the travel and entertainment sectors. The Company is in the early phases of our expanded strategy and continues to focus on existing operations as well as our efforts to implement this strategy.

At different times prior to fiscal 2000, the Company operated businesses in several industries including drug-screening, computer software and residential and commercial real estate development, all of which have been discontinued. During fiscal 2000, the Company, under the name flightserv.com, Inc. was engaged in the development of an Internet website to provide access to private aviation travel services. In March 2000, the Company launched its private aviation program, called Private Seats™. The Company was able to generate only minimal customer bookings through the Private Seats™ program and did not book any flights under this program after June 2000.

In October 2000, the Company changed its name to eResource Capital Group, Inc. to reflect the new business direction.

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.

AVIATION TRAVEL SERVICES

The Company acquired Internet Aviation Services, Ltd. (IASL), a leisure and business travel services company which provided charter aviation services, in August 2000. IASL was integrated into our aviation travel services business through our flightserv subsidiary.

flightserv.com, Inc. (flightserv), headquartered in Atlanta, GA, is a nationally recognized airline and travel program management company providing tour operators, corporate travel departments, sports teams and casinos with cost effective and reliable charter air transportation on a scheduled and ad-hoc basis. flightserv acts as a program manager by providing turnkey charter services including aircraft and related services such as ground support and aircraft fueling, passenger service and support, and real-time flight tracking. flightserv also provides its clients with Internet-ready reservations services and aviation consulting. flightserv differentiates itself in the charter travel industry by focusing on full program management services, which combines the functions of aircraft brokerage, flight operations, airport operations, contract negotiation between clients and air service providers, airport subsidy negotiations and consumer marketing. flightserv does not own or operate any aircraft.

flightserv has an agreement with Vacation Express, a member of the MyTravel Group, ending in December 2004, to operate a passenger hub at Atlanta Hartsfield Airport. Pursuant to the terms of the agreement, six commercial jet aircraft originate in six eastern and mid-western cities and serves six Caribbean destinations. Also, in July 2002, flightserv entered into a three-year agreement with Suntrips, Inc., a sister company of Vacation Express in the MyTravel Group, to operate scheduled weekly flights between three west coast cities and two Mexican destinations. The majority of the revenue of flightserv and the Company is generated pursuant to these contracts. During the three month period ended June 30, 2003, sales to Vacation Express, represented approximately 76% of the Company s consolidated revenue. For the fiscal year ended June 30, 2003, sales to Vacation Express represented approximately 73% of consolidated revenue.

In fiscal 2002 and 2003, flightserv developed and implemented a trial scheduled charter flight operation d/b/a Interstate Jet. Initial service began between Allentown PA/Newburgh NY and Las Vegas NV/Los Angeles CA. The origination cities were chosen as a result of direct cash subsidies and marketing support from the respective airport authorities. While the first trials of these cities did not yield adequate passenger loads and yields to break even, flightserv plans to continue to work with airport authorities to develop and implement new scheduled air service to minimize reliance on fixed length tour operator contracts.

During fiscal year 2003, flightserv started two joint ventures, flightfuel, Inc. ***(flightfuel)*** and Platinum Air Charter, LLC ***(Platinum),*** with initial investments of $5,000 and $60,000, respectively. Both are 50% owned by flightserv. flightfuel began operations in January, 2003 and provides fuel management services to its clients. flightfuel has temporarily suspended further fuel sales, while it seeks to recover through litigation past due fuel amounts (approximately $360,000) from a former client. Platinum, a Dallas, Texas based company, began operations in July, 2003 and provides charter air program management services to its clients. Platinum specializes in charter flights that can utilize smaller non-commercial airports (FBO s). Platinum currently has contracts primarily with casinos and NCAA colleges.

HOME TECHNOLOGY

The Company operates its home technology business through Lifestyle Innovations, Inc. (Lifestyle), a separate publicly traded company of which the Company owns approximately 77% of the outstanding common stock. Lifestyle is a full service home technology integration company providing complete installation and equipment for structured wiring, home security, PC networking, home audio, home theater, central vacuum and accent lighting. Lifestyle creates relationships with high-end residential homebuilders (those that build residences with value equal to or greater than $250,000) and provides such homebuilders with a basic structured wiring and security package in exchange for an agreement to introduce the homeowner to a Lifestyle sales consultant and to offer the homeowner a visit to the local Lifestyle showroom. While in the showroom, the homeowner is introduced to the complete line of home security, entertainment, lighting, and home office options. Lifestyle has also secured relationships with product manufacturers, distributors and service providers (cable, Internet service provider, broadband and security) to ensure the highest quality and most attractive pricing for the homeowners needs.

During fiscal 2001, Lifestyle expanded from its headquarters in Charlotte, NC to Raleigh, NC; Greenville, SC; Columbia, SC and Hilton Head, SC. In the fourth quarter of fiscal 2001, Lifestyle began development of a national franchising program, which was implemented in September 2001. In connection with the franchising program through June 2002, Lifestyle sold its Raleigh, Hilton Head, Greenville and Columbia locations to franchisees and has sold franchises in 14 total markets.

On April 3, 2001, the Company acquired Lifestyle in exchange of 1,153,525 shares of Common Stock pursuant to certain stock purchase agreements. Including direct acquisition costs, the total purchase price aggregated $7,695,586 and the transaction was recorded using the purchase method of accounting. The excess value of the purchase price over the fair value of Lifestyle s net assets on the acquisition date aggregating $8,069,669 was allocated to goodwill.

On July 10, 2001, the Company, through Lifestyle, acquired certain net assets, liabilities and the business of a home technology company located in Atlanta, GA for an aggregate purchase price of $1,255,000, which was paid by delivery of a cash payment ($275,000), Common Stock (139,365 shares) and a four-year term promissory note ($250,000). Including direct acquisition costs, the total purchase price for this business, which is operated as Lifestyle Technologies Atlanta, Inc. (LSTA) aggregated $1,260,000 and the transaction was accounted for using the purchase method of accounting. The excess value of the purchase price over the fair value of the net assets on the acquisition date aggregated approximately $1,208,000, which was allocated to goodwill.

On September 5, 2002 the Company closed the sale (the LFSI Transaction) of its subsidiary LST, Inc. (LST) to Lifestyle Innovations, Inc. (LFSI). LFSI is a fully reporting company whose common stock is publicly traded on the over the counter market. The Company s consolidated financial statements should be read in conjunction with all publicly available information of LFSI. Pursuant to this transaction, LST became a wholly-owned subsidiary of LFSI and the Company received 16,000,000 shares of LFSI restricted common stock, which represented approximately 77% of the outstanding stock of LFSI at the closing date. LFSI agreed to complete a registration statement within 90 days of closing (the Triggering Date) to register the shares of LFSI common stock received by the Company in the LFSI Transaction. LFSI issued an option to the Company for 1,000,000 shares of LFSI common stock at 20% of the last bid price for the LFSI common stock on the Triggering Date. Such option was exercisable only if the registration statement was not filed by the Triggering Date. As a result of the acquisition of FutureSmart Systems, Inc. (FutureSmart) by LFSI, the Company and LFSI agreed to extend the deadline for the registration statement to May 31, 2003, or a later date consistent with any registration rights associated with the acquisition of FutureSmart or otherwise, or as the parties mutually agree. The registration statement has not been completed and therefore the LFSI common stock held by the Company remains restricted. The LFSI Transaction added approximately $320,000 of cash, $50,000 of which was received in fiscal 2002, and $65,000 of other assets to the existing assets of LST. Additionally, in September 2002 and subsequent to the closing of the LFSI Transaction, LFSI received approximately an additional $870,000 in equity funding from its private placements.

In connection with LFSI s acquisition of FutureSmart as discussed below, the Company agreed that for a period equal to the lesser of (i) March 3, 2005, and (ii) one (1) year from the registration of the shares of common stock of the FutureSmart shareholders, in the event that the Company proposes to transfer fifteen percent (15%) or more of the shares of LFSI s capital stock owned by the Company (other than registered offerings, sales to certain investors, and related party sales), then certain of the FutureSmart shareholders shall have the right to participate in such transfer of stock on the same terms and conditions, and the number of shares of LFSI stock that the Company may sell in the transaction shall be correspondingly reduced; provided, however, that the aggregate number of shares that the FutureSmart shareholders may sell in any proposed sale transaction may not exceed twenty-five percent (25%) of the total number of shares to be sold by the Company.

On May 28, 2003 the Board of Directors of the Company approved a plan to dispose of FutureSmart. Accordingly, its operations since March 7, 2003 have been included in discontinued operations.

LFSI completed its acquisition of FutureSmart effective March 7, 2003 after which date the results of operations of FutureSmart are included in the consolidated financial statements. The purchase price of $876,910 consisted of the issuance of 1,000,000 shares of LFSI s $.10 par value preferred stock, a bridge loan by LFSI to FutureSmart of $224,830 and $552,080 in direct transaction costs.

The acquisition of FutureSmart was accounted for as a purchase in accordance with SFAS No. 141, and the Company has accordingly allocated the purchase price of FutureSmart based upon the fair values of the net assets acquired and liabilities assumed. The allocation of the purchase price resulted in the Company recording goodwill in the amount of $2,939,072.

Pursuant to the acquisition agreement, the shareholders of FutureSmart could receive Earn out Consideration of up to 1,200,000 LFSI common shares if FutureSmart achieves certain Performance Milestones.

FutureSmart is a manufacturer of structured wiring and home networking systems. FutureSmart develops and distributes home technology products designed to meet the current and future needs of homeowners for computer networking, audio/video distribution and home automation.

The Company records minority interest, which represents the minority shareholders share of income or losses of LFSI, a consolidated subsidiary. The minority interest in the consolidated balance sheet reflects the original investment by these minority shareholders in this consolidated subsidiary, along with their proportional share of the losses of the subsidiary. Minority interest also reflects LFSI s subsequent sales of LFSI common stock, issuance of common stock warrants and preferred stock, and the Company s cost basis in LFSI stock sold.

TECHNOLOGY SOLUTIONS

Our technology solutions business is the result of our acquisitions of Avenel Alliance, Inc. (Avenel Alliance) in February 2001 and Logisoft Corp. (f/k/a Logisoft Computer Products Corp., Logisoft), and its wholly-owned subsidiary eStorefronts.net Corp. in June 2001. Avenel Alliance was a wholly-owned subsidiary of Avenel Ventures, Inc. (Avenel Ventures), which was also acquired by us in February 2001 and integrated into our corporate unit.

Our 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 to the educational market and corporate customers, full service Internet development, Internet 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 February 13, 2001, the Company acquired all of the outstanding capital stock of Avenel Ventures, and its wholly-owned subsidiary Avenel Alliance, in exchange of 957,143 shares of Common Stock pursuant to a stock purchase agreement dated as of November 8, 2000. The total purchase price aggregated $6,834,000 and the transaction was recorded using the purchase method of accounting. The excess value of the purchase price over the fair value of Avenel Ventures net assets on the acquisition date aggregating $5,610,000 was allocated to goodwill. This goodwill was allocated to the technology solutions business segment, except for, $1,000,000 that was allocated to the Company s Corporate segment in the Company s adoption of Statement of Financial Accounting Standards (FASB) No. 142.

On June 19, 2001, the Company acquired Logisoft in exchange of 785,714 shares of Common Stock pursuant to that certain agreement and plan of merger. The total purchase price aggregated $5,504,879 and the transaction was recorded using the purchase method of accounting. The excess value of the purchase price over the fair value of Logisoft s net assets on the acquisition date aggregating $4,146,000 was allocated to goodwill. The aggregate purchase price and goodwill were both adjusted in fiscal 2002 by $42,000 to reflect the issuance of earn-out shares to certain members of Logisoft s management.

On June 10, 2003 eStorefronts.net Corporation, 100% owned by Logisoft, a subsidiary of the Company, purchased a 75% interest in Premier Shoe Group, LLC ***(Premier)*** for $187,000. A one-year 10% note of $147,000 was signed at closing and $40,000 cash was paid. Premier operates a website named 123Shoes.com which sells brand name shoes. The results of Premier will be consolidated on Logisoft s financial statements and the portion of income or loss attributable to the minority interest as an increase or decrease to the minority interest recorded.

TELECOMMUNICATIONS CALL CENTER

We operate our telecommunications call center business through our subsidiary DM Marketing, Inc. (DMM). DMM operates a thirty-five seat telecommunications call center located in Pensacola, Florida which is equipped to provide telemarketing, help desk and other services to companies.

In December 2002, the Company s aviation travel services business assumed operational responsibility of the call center operations located in Pensacola FL. Investments have been made in new reservations software, related computer equipment, and additional employees to support increased call volumes associated with the Company s Interstate Jet programs. The Southeast Airlines Club 59 program has been discontinued due to reduced call volumes from Southeast and the reservations center is now focusing on the Interstate Jet programs.

In January 2003, DMM was operated and managed by flightserv and provided in-bound reservations call center services to Southeast Airlines and flightserv s Interstate Jet. From January through June 2003 DMM booked approximately 65,000 passenger segment reservations for Southeast Airlines and Interstate Jet.

RECENT BUSINESS DEVELOPMENTS

During the first quarter of fiscal year 2004, the Company received funding from private investors of $50,000 at $.25 per share and $938,000 at $1.12 per share. During August 2003, the Company converted certain debt and certain accounts payable totaling $879,779 to common stock at $1.12 per share.

On September 1, 2003, DMM, a subsidiary of the Company, closed the Pensacola, FL call center facility. DMM is currently negotiating with the landlord for alternative uses of the Pensacola location, or a negotiated lease buyout for the present lease which expires in June 2004. Future DMM programs will be managed by flightserv.com, Inc., either at its existing office in Atlanta, GA or new space depending on the size and profit projections of the specific program.

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 and others are discussed elsewhere herein or in other documents filed by the Company with the SEC. 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 MAY NEED TO RAISE ADDITIONAL FUNDS IN ORDER TO CONTINUE TO OPERATE AND GROW OUR BUSINESS.

The Company believes that its existing balances of cash and cash equivalents and investments will be sufficient to meet working capital and capital expenditure requirements of our continuing operations through the end of fiscal 2004. If we are unable to grow our business or improve our operating cash flows as expected, we suffer significant losses on our investments or are unable to realize adequate proceeds from those investments, including our holdings of LFSI stock, then we will need to secure alternative debt or equity 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 not be able to continue to fund our existing businesses or our planned expansion or take other steps necessary to enhance our business or continue our operations.

WE HAVE BEEN INCURRING OPERATING LOSSES AND THERE CAN BE NO ASSURANCE THAT WE WILL ACHIEVE OR SUSTAIN PROFITABILITY.

We incurred operating losses in our fiscal years ended June 30, 2003, 2002, 2001 and 2000. Certain of our other operating businesses have incurred and continue to incur operating losses. In particular, we have, and continue to, incur operating losses in connection with our efforts to grow our home technology business. 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 for any annual period.

THE PRICE OF OUR COMMON STOCK HAS BEEN VOLATILE.

The stock market in general, and the market for travel, entertainment and technology services companies has recently experienced extreme volatility. Similarly, the per share trading price of our Common Stock during the year ended June 30, 2003, as reported by the American Stock Exchange, fluctuated from a high of $1.50 to a low of $0.26. Fluctuations in the price of our Common Stock may occur, among other reasons, in response to:

- operating results;
- regulatory changes;
- economic changes;
- 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. If the market price of our Common Stock decreases, stockholders may not be able to sell their shares of Common Stock at a profit.

WE MAY BE UNABLE TO MAINTAIN OUR LISTING ON THE AMERICAN STOCK EXCHANGE.

Our Common Stock is presently listed and trading on the American Stock Exchange (the Exchange). The Exchange has previously raised the question of whether the Company meets the qualifications for continued listing and may raise such questions in the future. 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.

CERTAIN OF OUR BUSINESSES HAVE LIMITED OPERATING HISTORIES.

We acquired DMM, IASL, Avenel Ventures, and its subsidiary Avenel Alliance, and Lifestyle during the fiscal year ended June 30, 2001. DMM was formed in October 1998 and IASL, Avenel Ventures and Lifestyle were each formed during calendar year 2000. Each of these companies has incurred losses since their inception and has a limited operating history. Furthermore, due to these losses, we have significantly curtailed the operations of Avenel Ventures and DMM. As a result, there is limited information upon which to base an evaluation of these components of our business and their prospects. You should evaluate the chances of financial and operating success of these businesses in view of the risks, uncertainties, expenses, delays and difficulties associated with starting new businesses.

WE HAVE BEEN UNSUCCESSFUL IN IMPLEMENTING OUR PRIOR BUSINESS PLANS, HAVE RECENTLY MODIFIED OUR BUSINESS PLAN AND MAY NOT BE ABLE TO SUCCESSFULLY IMPLEMENT OUR CURRENT BUSINESS PLAN.

During our fiscal year ended June 30, 2000, we incurred substantial expenses developing our Private Seats™ program. We were unable to generate sufficient customer use of our Private Seats™ program and had to discontinue the service shortly after it was launched. As a result, we made a decision to diversify through the acquisitions of DMM, IASL, Avenel Ventures, Lifestyle and Logisoft in fiscal 2001, expanding our business plan to attempt to acquire expansion-stage travel, entertainment and technology services companies. At the same time, we have had a change in our executive team. However, we have limited resources and there can be no assurance that we will be able to implement our expanded business plan or achieve profitability. In addition, if we are not successful in implementing our strategy or if we otherwise believe it to be in our best interest, then we may modify or change our business plans.

WE MAY BE UNABLE TO SUCCESSFULLY EXECUTE OUR ACQUISITION 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 Common Stock as consideration for acquisitions.

In addition, turbulence in financial markets and the slowdown in the 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 Common Stock to make strategic acquisitions and attempt to grow our business. However, each of the acquisitions that we complete in the future, involving the issuance of Common Stock, 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 SUBSIDIARIES FACE SIGNIFICANT COMPETITION.

Our success depends on our ability to grow our subsidiaries businesses, all of which operate in highly competitive business segments. Many of our subsidiaries competitors have substantially greater financial, operational and human resources than we do. As a result, our subsidiaries may be unable to compete successfully with such competitors.

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, AND THE LOSS OF ANY OF THOSE EMPLOYEES MAY HARM OUR BUSINESS.

Our performance is substantially dependent on the performance of our executive officers, Michael D. Pruitt and Melinda Morris Zanoni and other key employees. The familiarity of these key employees with the technology industry and the familiarity of the key employees of our charter aviation business, Kent Elsbree and Cary Evans, with the charter services business makes them 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.

OUR AVIATION TRAVEL SERVICES BUSINESS IS DEPENDENT UPON A FEW, KEY CUSTOMERS AND SERVICE PROVIDERS.

During the three month periods ended June 30, 2003 and 2002, sales to Vacation Express, a MyTravel Group company and a customer of the Company s aviation travel services business, represented 76% and 63%, respectively, of the Company s consolidated revenue. For the years then ended, sales to Vacation Express represented 73% and 54%, respectively, of the Company s consolidated revenue. This concentration of revenue with Vacation Express, and its sister company, Suntrips, Inc. (Suntrips), increased in July 2002 with the beginning of a new program for Suntrips.

If these customers default under the contracts that they presently have with the Company, or otherwise are unable to fulfill their obligations under such contracts, the Company s aviation travel services business would suffer operating losses which may result in a material adverse impact on the Company s financial position and its ability to continue operations.

The Company s aviation travel services business generally contracts with one to two carriers for each of the long-term tour operator contracts discussed above. While this concentration generally reduces the costs of the carrier service, if one or more of these carriers is unable to perform under its contract, our aviation travel services business may experience service interruptions which could reduce its revenue. Additionally, the Company s aviation 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.

The Company s aviation travel services business has a dispute of approximately $2.3 million with Pace Airlines, Inc. (Pace) related to amounts due to Pace for calendar year 2002 for shortages related to guaranteed flying revenue and expenses associated with relocating the air hub with the Vacation Express contract. Management believes these claims to be baseless and no funds are due Pace. In the event that funds were ultimately determined to be due Pace, management believes the payment responsibility would be with Vacation Express, or their parent company, My Travel. Accordingly a liability has not been booked in fiscal year 2003.

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 aviation 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 effect economic performance of the United States. These events could also have a material adverse effect on our home technology business and our other business segments.

IF OUR AVIATION TRAVEL SERVICES BUSINESS DOES NOT PRODUCE REVENUE AS FORECASTED, THEN WE WILL NEED TO RAISE ADDITIONAL CAPITAL SOONER THAN EXPECTED.

Pursuant to an agreement with a major tour operator, we created and operate a passenger hub at Atlanta s Hartsfield Airport. Pursuant to the terms of the related agreement, aircraft originate in six eastern and mid-western cities and serve six Caribbean destinations. This program began operations in December 2001. This agreement represents the majority of our fiscal 2003 aviation services revenue, and along with a similar three year agreement to service several Mexican destinations from several western cities that flightserv signed in July 2002, is expected to comprise the majority of our revenue in fiscal 2004. However, due in part to the slowdown and uncertainty in the economy in general and in the air travel industry in particular, there can be no guarantee that the revenue from these agreements will materialize. In fact, our customer for the Atlanta hub operation has reduced its scheduled flights between August 2003 and December 2003. These schedule changes are expected to reduce the Company s aviation services revenue, from the original schedule by approximately $1 million and gross profit during that period by $100,000. If our aviation travel services business does not generate the forecasted revenue, then our aviation travel services business may not operate profitably and we would not be able to offset any operating losses in other business segments or corporate expenses. As a result, we would need to raise additional capital, through debt or equity financing, sooner than expected.

AVIATION SERVICES CONTRACTS MAY RESULT IN LOSSES.

The Company actively pursues opportunities to operate scheduled and ad-hoc charter service outside of its two primary aviation 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 aviation travel services contracts. For example, in fiscal 2003, the Company s Interstate Jet and DMM reservations center lost approximately $550,000 for the fiscal year due primarily to start up costs associated with the DMM reservation center, lower than anticipated load and yield factors for Interstate Jet and higher than anticipated fuel and aircraft costs. Management believes that passenger demand was significantly adversely effected 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 AVIATION 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 aviation travel services business are affected by such regulation. Charter flights operators, upon which our aviation 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 aviation travel services business operations and financial condition.

OUR AVIATION TRAVEL SERVICES BUSINESS FACES INTENSE COMPETITION FOR CUSTOMERS FROM THE TRAVEL INDUSTRY.

We provide leisure 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 also 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.

HOME TECHNOLOGY BUSINESS MAY NOT ACHIEVE OR SUSTAIN PROFITABILITY.

Our home technology business began operations in March 2000 and since then has not achieved profitability for a sustained period of time. Through our home technology business, we provide homeowners complete installation and equipment for structured wiring, home security, PC networking, home audio, home theater, central vacuum and accent lighting. We also provide similar services to the commercial market. Our planned expansion of this business through franchising and entering new markets may fail due to intense competition from competitors in the residential technology industry who have greater capital, technical, operational, marketing and human resources and greater experience and brand equity than we do. Furthermore, we may have overestimated the depth of the residential technology industry and the demand for our home technology products. Our inability to execute the expansion plan of Lifestyle and to attract and retain customers for this business would likely result in our home technology business continuing to operate at a loss.

OUR EFFORTS TO GROW OUR HOME TECHNOLOGY BUSINESS THROUGH THE SALE OF FRANCHISES MAY NOT SUCCEED.

We began franchising our home technology business in September 2001. There is no guarantee that efforts to franchise our home technology business model will be successful. To the extent we are successful in selling franchises, we may incur significant costs related to supervising and monitoring our franchisees and protecting our proprietary rights associated with our business model. Furthermore, franchise operations are regulated by the federal and state governments and compliance with such regulations may cause us to incur additional costs. We cannot be certain that we will generate adequate revenue from our franchise activities to offset these costs.

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 NOT BE ABLE 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 AND WARRANTS COULD SUBSTANTIALLY DILUTE EXISTING STOCKHOLDERS AND COULD HAVE A NEGATIVE EFFECT OUR STOCK PRICE.

We have adopted the eResource Capital Group, Inc. 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, 2003, we have outstanding options for 2,409,750 shares, under the Plan that have been granted to our officers, directors, employees and other service providers of which options for 1,276,993 shares, are vested. There have been zero options exercised for fiscal year 2003 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, 2003 for up to 2,329,660 shares. Our outstanding options and warrants have exercise prices ranging from $0.28 to $28.00. The exercise of these options or warrants will dilute the percentage ownership of our current stockholders and the potential sale of shares issued upon the exercise of these warrants or options could have a negative impact on the market price of our Common Stock.

THE CONVERSION OF DEBT BY EXISTING DEBT HOLDERS COULD SUBSTANTIALLY DILUTE EXISTING STOCKHOLDERS AND COULD HAVE A NEGATIVE EFFECT OUR STOCK PRICE.

We have entered into debt conversion agreements with certain debt holders to give such parties the option to convert up to $1.049 million of debt and interest of the Company and two of its subsidiaries into the right to receive shares of the Company s Common Stock. The terms of these agreements allow such debt holders to convert balances due them into shares of our Common Stock at a 20% discount to an average market price, but no less than $1.12 per share, and require us to register the shares underlying the convertible debt on a registration statement. Up to 714,286 shares may be issued in connection with such debt conversions. During August, 2003 three debt holders elected to convert debt to common stock at $1.12 per share. Mr. G. David Gordon, a Company Stockholder and owner of six LFSI franchises, converted a total of

$308,738 of outstanding debt and accrued interest into 275,658 restricted common shares.. GAIA Holdings, Inc., a privately held company, converted a total of $552,439 of outstanding debt and accrued interest into 387,445 restricted common shares. The Company incurred this debt during fiscal 2001 and fiscal 2002. These transactions occurred in accordance with the conversion terms contained in the debt agreements.

In addition, $18,603 owed to a vendor was converted to 36,000 shares of restricted common stock of the Company during August 2003.

In addition, we have $650,000 of debt outstanding that is convertible at $4.55 per share, the principal of which is due in August 2003, and $750,000 that is convertible at $2.10 per share or a mutually agreed upon discounted market price, the principal of $150,000 which is due in December 2003 and $600,000 which is due in December 2004.

Conversions of debt to shares of the Company s Common Stock will result in dilution of a stockholder s investment in the Company and the potential sales of Common Stock by the Selling Stockholders 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, 2003 and 2002, approximately 2,100,000 of our 13,948,160 and 2,100,000 of our 12,280,820, 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.

DISCONTINUED OPERATIONS

On March 7, 2003 LFSI completed its acquisition of FutureSmart Systems, Inc., a manufacturer and distributor of structured wiring and home networking distribution panels. On May 28, 2003 LFSI s Board of Directors approved a plan to dispose of FutureSmart. Accordingly, its operations since March 7, 2003 have been included in discontinued operations.

In fiscal 2001, the Company discontinued its commercial real estate business, which consisted of two strip-mall shopping centers in the Atlanta, GA area. In May 2001, the Company entered a contract to sell its two shopping centers, which closed on August 31, 2001. As a result, the Company recorded a gain of approximately $575,000 in August 2001.

EMPLOYEES

At June 30, 2003, the Company had 116 full-time employees in its continuing businesses as follows:

Aviation Travel Services	22
Home Technology	24
Technology Solutions	25
Telecommunication Call Center	2
Corporate	5
	78

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

ITEM 2. PROPERTIES

At June 30, 2003 the Company s continuing businesses leased office building space as follows:

Business Segment	Locations	Square Feet	Ann. Rent	Termination
Aviation Travel Services	Atlanta, GA	5,989	$ 79,200	Nov 2003
Home Technology	Charlotte, NC/Atlanta, GA	22,963	$236,273	June 2007
Technology Solutions	Fairport, NY/Charlotte, NC	8,499	$158,274	Dec. 2009
Call Center	Pensacola, FL	7,380	$ 33,863	June 2004
Corporate	Charlotte, NC	3,304	$ 66,080	Sept. 2004

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

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are involved from time to time in various claims and legal actions in the ordinary course of business. 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.

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

ITEM 4. VOTE OF SECURITY HOLDERS

There were no shareholders meetings or submission of matters to a vote of security holders during the fiscal year ended June 30, 2003.

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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, mark-down or commission and may not represent actual transactions. The following table shows the high and low trading and closing prices of the Common Stock during the last two fiscal years as reported on the Exchange:

Fiscal 2003	High	Low	Close
First Quarter	$ 1.50	$ .66	$ .80
Second Quarter	.93	.35	.61
Third Quarter	.65	.26	.31
Fourth Quarter	.70	.27	.55

Fiscal 2002	High	Low	Close
First Quarter	$ 6.30	$ 4.27	$ 4.62
Second Quarter	4.34	1.12	1.54
Third Quarter	2.38	.84	.98
Fourth Quarter	1.82	.70	.95

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.

Record Holders

The approximate number of record holders of the Company s Common Stock as of September 29, 2003 was 5,000.

Securities authorized for issuance under equity compensation plans

The following table summarizes certain information as of the end of the Company s fiscal year 2003 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 exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	2,409,750	$ 2.10	17,590,250
Equity compensation plans not approved by security holders	2,329,660	$ 9.31	
Total	4,739,410	$ 5.65	17,590,250

The material features of the Company s stock option plan, the data for which is summarized under the equity compensation plans approved by security holders in the table above, and its warrant arrangements with vendors and other service providers are summarized in Note 11 to the consolidated financial statements that appear in Item 7 of this Annual Report.

Sales of Unregistered Securities

During the quarter ended June 30, 2003, the Company issued 1,300,000 shares of restricted Common Stock at $.25 per share in connection with a private placement sale of Common Stock. The shares were issued to four investors. The offering was exempt from registration pursuant to section 4(2) of the Securities Act. All investors were accredited. The investors received information concerning the Company and had an opportunity to ask questions about the Company. The shares issued to the investors contain a legend restricting their transferability absent registration or an applicable exemption.

In fiscal 2003, the Company issued options to purchase its Common Stock to employees and directors. Following is a summary of options issued in fiscal 2003:

Number of Shares Purchasable	Exercise Price Per Share	Grant Date	Term (Years)	Vesting Period (Months)
580,000	$ .55	10/17/02	10	12
439,500	.55	4/15/03	7	48
*350,000	.74	10/1/02	7	48
1,500	1.15	9/13/02	7	45
1,500	1.15	9/13/02	7	35
1,372,500				

* As of July 30, 2003, these options are no longer exercisable.

All of the options indicated in the above table were granted under the Company s option plan which was originally registered on Form S-8. The options were issued under the exemption from registration pursuant to section 4(2) of the Securities Act.

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Results of Continuing Operations

The following table summarizes results of continuing operations by business segment for fiscal 2003 and 2002:

Year Ended June 30,2003