RICKS CABARET INTERNATIONAL INC

FORM 10QSB
(Quarterly Report of Financial Condition)

Filed 7/29/1998 For Period Ending 6/30/1998

Address	505 NORTH BELT SUITE 630
	HOUSTON, Texas 77060
Telephone	281-820-1181
CIK	0000935419
Industry	Restaurants
Sector	Services
Fiscal Year	09/30

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934; For the Quarterly Period Ended: June 30, 1998
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-26958

RICK'S CABARET INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Texas	76-0037324
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

3113 Bering Drive
Houston, Texas 77057
(Address of principal executive offices, including zip code)

(713) 785-0444
(Registrant's telephone number, including area code)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

At July 14, 1998, there were 4,831,054 shares of common stock, $.01 par value, were outstanding.

Transitional Small Business Disclosure Format (check one); Yes [ ] No [x]

RICK'S CABARET INTERNATIONAL, INC.

CONTENTS

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	JUNE 30, 1998 (UNAUDITED)	SEPTEMBER 30, 1997 (AUDITED)
CURRENT ASSETS		
Cash	$ 405,972	$ 357,410
Accounts receivable	129,464	29,695
Prepaid expenses	41,224	57,413
Inventories	77,027	61,953
Land held for sale	---	815,652
Total current assets	653,687	1,322,123
PROPERTY AND EQUIPMENT	7,952,674	6,473,919
Accumulated depreciation	(1,074,360)	(813,853)
	6,878,314	5,660,066
OTHER ASSETS		
Other	147,002	165,504
Goodwill (net of amortization)	2,187,288	---
	2,334,290	165,504
	$ 9,866,291	$ 7,147,693

LIABILITIES AND STOCKHOLDERS' EQUITY

	JUNE 30, 1998 (UNAUDITED)	SEPTEMBER 30, 1997 (AUDITED)
CURRENT LIABILITIES		
Current portion of long term debt	$ 484,766	$ 398,798
Accounts payable - trade	709,630	649,618
Accrued expenses	215,928	166,365
Total current liabilities	1,410,324	1,214,781
LONG TERM DEBT, LESS CURRENT PORTION	3,825,567	1,754,175
Total liabilities	5,235,891	2,968,956
COMMITMENTS AND CONTINGENCIES	----	---

STOCKHOLDERS' EQUITY		
Preferred stock - $.10 par, authorized 1,000,000 shares; none outstanding.	---	---
Common Stock - $.01 par, authorized 15,000,000 shares; issued 4,831,054 and 4,114,922. . .	48,311	41,149
Additional paid in capital	6,658,234	5,940,306
Retained earnings (deficit).	(2,076,145)	(1,802,718)
Total stockholder's equity	4,630,400	4,178,737
	$ 9,866,291	$ 7,147,693

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	1998 UNAUDITED	1997 UNAUDITED	1998 UNAUDITED	1997 UNAUDITED
REVENUES				
Sales	$ 2,097,954	$ 1,675,966	$ 5,774,362	$ 4,719,223
OPERATING EXPENSES				
Cost of goods sold	281,520	311,525	806,047	901,468
Salaries and wages	727,953	450,936	1,748,195	1,531,510
Other general and administrative				
Taxes and permits	164,179	135,336	531,159	315,803
Charge card fees	24,122	28,855	96,163	63,419
Rent	145,551	132,448	437,692	370,367
Legal and accounting	59,205	27,843	169,844	201,776
Advertising	197,052	175,819	558,682	615,080
Other	351,970	221,119	936,718	884,419
Pre-opening costs	17,634	---	205,625	151,138
Depreciation & amortization	146,035	80,190	310,219	209,952
	2,115,221	1,564,071	5,800,344	5,244,932
INCOME (LOSS) FROM OPERATIONS	(17,267)	111,895	(25,982)	(525,709)
Interest expense	(92,217)	(46,026)	(252,799)	(88,217)
Interest income	740	134	5,354	5,965
NET INCOME (LOSS)	$(108,744)	$ 66,003	$(273,427)	$(607,961)
NET INCOME (LOSS) PER COMMON SHARE	$(0.03)	$ 0.02	$(0.07)	$(0.15)
WEIGHTED AVERAGE SHARES OUTSTANDING	4,385,860	4,120,922	4,257,180	4,099,307

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JUNE 30, 1998 AND 1997

	1998 (UNAUDITED)	1997 (UNAUDITED)
NET INCOME (LOSS)	$(273,427)	$(607,961)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Depreciation and amortization	310,219	209,952
Loss on sale of land.	42,910	---
Changes in assets and liabilities:		
Accounts receivable	(99,769)	19,346
Prepaid expenses.	16,189	90,160
Inventories	(15,074)	(9,371)
Accounts payable and accrued expenses . .	109,575	252,751
Income tax payable/receivable	---	(168,393)
Cash provided (used) by operating expenses.	90,623	(213,516)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(1,478,555)	(4,647,243)
Change in other assets.	18,502	(100,969)
Increase in Goodwill.	(2,147,000)	---
Sale of land.	772,742	---
Cash used by investing activities	(2,834,311)	(4,748,212)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued, less offering costs. .	634,890	168,746
Increase in long term debt.	2,700,000	2,056,904
Payments on long term debt.	(542,640)	(56,732)
Cash provided by financing activities . . .	2,792,250	2,168,918
NET (DECREASE) IN CASH.	(48,562)	(2,792,810)
CASH AT BEGINNING OF PERIOD	357,410	3,150,003
CASH AT END OF PERIOD	$ 405,972	$ 357,193
CASH PAID DURING PERIOD FOR:		
Interest.	$ 92,217	$ 86,240
Income tax.	$ ---	$ ---

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1998

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. They do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial statements for the year ended September 30, 1997 included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-KSB. In the opinion of Management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the nine months ended June 30, 1998 are not necessarily indicative of the results that may be expected for the year ending September 30, 1998.

2. PURCHASE OF MINNESOTA CLUB AND RELATED BORROWINGS

On November 21, 1997, RCII acquired property in Minneapolis, Minnesota for a purchase price of $3,000,000. Four separate notes totaling $2,700,000 were executed to finance this purchase. The notes are secured by the property and are payable as follows: $2,500,000 at 9% amortized over 240 months and $200,000 at 10% amortized over 18 months

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

The following discussion should be read in conjunction with the Company's unaudited consolidated financial statements and related notes thereto included in this quarterly report and in the audited consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contained in the Company's 10-KSB for the year ended September 30, 1997. Certain statements in the following MD&A are forward looking statements. Words such as "expects", "anticipates", "estimates", and similar expressions are intended to identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties are set forth below and under "Special Note Regarding Forward Looking Information".

GENERAL

The Company was formed in December 1994 to acquire all of the outstanding capital stock of Trumps, Inc., a Texas corporation ("Trumps") formed in 1982. Since 1983, Trumps has operated Rick's Cabaret, a premier adult nightclub offering topless entertainment in Houston, Texas. In 1995, the Company acquired Tantra, a non-sexually oriented discotheque and billiard club also located in Houston, Texas from Robert L. Watters, the principal shareholder. Tantra became operational during the second quarter of fiscal 1995. In February 1996, the Company formed RCI Entertainment (Louisiana) Inc., a Louisiana corporation for the purpose of administering, operating, managing and leasing its location in New Orleans, Louisiana. The Company opened its new facility in New Orleans in January, 1997. In addition, the Company formed RCI Entertainment (Texas) Inc. in June 1996, for the purpose of acquiring 1.13 acres of land in Houston, Texas. The Company sold the Land in November, 1997. In January, 1997 the Company formed RCI Entertainment (Minnesota) Inc. for the purpose of acquiring, renovating operating and managing its new facility in Minneapolis, Minnesota. The Company opened its new facility in Minneapolis, Minnesota on March 5, 1998. The Company's fiscal year end is September 30.

Revenues are derived from the sale of liquor, beer, wine and food, as well as from dancer performances, cover charges and other income.

RESULTS OF OPERATIONS

<u>Three Months Ended June 30, 1998 compared to the Three Months Ended June 30,</u>
1997. For the quarter ended June 30, 1998, the Company had consolidated total revenues of $2,097,954, an increase of $421,988 from fiscal 1997 third quarter revenues of $1,675,966. The Company's new location in Minneapolis, Minnesota opened in March, 1998 and the increase in revenues arose primarily from the sales for the new location. The Company continues to study potential acquisition candidates which would contribute to overall revenue growth and profitability.

Cost of goods sold were 13.4% and 18.5% of sales for the third quarters of fiscal 1998 and 1997, respectively. The decrease in cost of goods sold arises from continuing efforts by management to control cost of goods sold. The Company continues to aggressively decrease costs throughout all of its locations by improving menu offerings, reducing food inventory stocks and spoilage, and by modifying buying procedures.

Payroll and related costs increased by $277,017 from the third quarter of fiscal 1997.The increase arose primarily from the increased personnel costs attributable to the opening of the Minneapolis location.

Other selling, general and administrative expenses increased 37% or $304,138 from the third quarter of fiscal 1997 to the third quarter of fiscal 1998. Advertising and promotion increased $21,233 due to the expenses of advertising the new Minneapolis location. Pre-opening expenses of $17,634 were expensed during the quarter, relating to the opening of the Minneapolis location. Depreciation and Amortization increased $65,845 due to the increased costs arising from the opening of the Minneapolis location. Interest expense increased as a result of the payment of financing costs relating to the acquisition of the Minneapolis location. Net loss for the third quarter of 1998 was ($108,744) or a loss of ($.03) per share compared with net income of $66,003 or $.02 per share in the third quarter of 1997. The Company recorded depreciation and amortization expense of $146,035 during the quarter.

<u>Nine Months Ended June 30, 1998 compared to the Nine Months Ended June 30, 1997.</u>
For the nine months ended June 30, 1998, the Company had consolidated total revenues of $5,774,362, an increase of $1,055,139 from net revenues of $4,719,223 for the nine months ended June 30, 1997.

Cost of goods sold was 13.9% and 19.1% of sales for the first nine months of fiscal 1998 and 1997, respectively. (See management discussion above relating to this item.)

Payroll and related costs increased $ 216,685 from the first nine months of fiscal 1997 due to the addition of Minneapolis personnel.

Other selling, general and administrative expenses increased 15% or $434,148 from the first nine months of fiscal 1997. The increase was due to significant increases in taxes and permits as a result of increased sales. In addition, depreciation and amortization increased during the nine month period.

Net loss for the nine months ended June 30, 1998 was ($273,427) compared to a net loss of ($607,961) for the nine month period ended June 30, 1997.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1998 the Company had a working capital deficit of ($756,637) compared to working capital deficit of ($486,545) at June 30, 1997. In the opinion of management, working capital is not a true indicator of the financial status. Typically, the Company carries current liabilities in excess of current assets because the business receives substantially immediate payment for sales, with nominal receivables, while inventories and other current liabilities normally carry longer payment terms. Vendors and purveyors often remain flexible with payment terms providing the Company with opportunities to adjust to short-term business down turns. The Company considers the primary indicators of financial status to be the long-term trend and mix of sales revenues, overall cash flow and profitability from operations and the level of long-term debt.

During the nine months ended June 30, 1998 the Company provided $90,623 cash from operations as opposed to ($213,516) cash used during the same period in fiscal 1997. An amortization and depreciation expense recorded during the period ended June 30, 1998 was $310,219. Management believes that the decrease in cash used in operations is a positive trend indicating the impact which an additional locations can have on overall overhead coverage and operating results. The Company experienced a loss from operations of ($17,267) during this fiscal quarter compared to an operating profit of $111,895 during the same period in the previous year. Management attributes the loss to the effect of start-up operations in the Company's new location in Minneapolis, Minnesota, as well as to the effect of the significantly increased depreciation and amortization attributed to the new location. In addition, there was a decrease in sales in Houston, Texas resulting from the implementation of the new sexually oriented business ordinance in April and June 1998. Management believes that the effects of the implementation of this ordinance will diminish in future months.

The Company continually reviews potential acquisition candidates for suitability. The Company continues to plan for the opening of a cabaret style dinner theater on the second floor of the New Orleans club. Completion of the second floor facility is currently contingent upon the obtaining additional construction cost financing.

SEASONALITY

The Company is significantly affected by seasonal factors. Typically, the Company has experienced reduced revenues from April through September with the strongest operating results occurring during October through March. While management continues to believe that the overall trend remains consistent, the Company has experienced decreased sales in the Houston location during the October through June period. Management attributes these decreases to the current level of competition and to the public perception of a newly enacted city ordinance affecting sexually-oriented businesses which is undergoing judicial review.

SPECIAL NOTE REGARDING FORWARD LOOKING INFORMATION

The Company is including the following cautionary statement in this Quarterly Report on Form 10-QSB to make applicable and take advantage of the safe harbor provision of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. Certain statements contained herein are forward-looking statements and, accordingly, involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitations, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs or projections will result, or be achieved, or be accomplished.

In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in the view of the Company, could cause material adverse affects on the Company's financial condition and results of operations. Important factors that could cause actual results to differ materially from those indicated include risks and uncertainties relating to the impact and implementation of the sexually oriented business ordinance in the City of Houston, the recent opening of the club in Minneapolis, Minnesota and the availability of acceptable financing to fund corporate expansion efforts.

PART II

OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

Information required pursuant to Item 701 of Regulation S-B:

In April, 1998, the Company entered into three separate option agreements which entitled the Holders (the "Holders") to purchase an aggregate of 500,000 shares of the Company's common stock at $0.80 per share. The options were acquired at a price of $0.20 per share. All of these options were subsequently exercised by the Holders at the exercise price of $0.80 per share. Thus, the Company received a total of $500,000 in cash for these transactions. All of the Holders were accredited investors. The Company relied on Section 4(2) of the Securities Act of 1933 as amended for an exemption from registration. The Holders were Adventure Capital Corp., Monterey Group Corp., and TSH Accounting L.C.

Also in April, 1998, the Company raised an additional $50,000 in cash from the sale of 34,500 shares of common stock to Canine Limited, an accredited investor. The Company relied on Section 4(2) of the Securities Act of 1933 as amended for an exemption from registration.

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

The regular annual meeting of shareholders was held on June 30, 1998.

The following table sets forth the names and tabulations of all nominees for Director at the Annual Meeting, all of whom were elected:

Director	For
Robert L. Watters	3,327,718
Erich Norton White	3,327,718
Scott C. Mitchell	3,327,708
Martin Sage	3,327,718

The following table sets forth the tabulation of the proposal to ratify the selection of Jackson & Rhodes, P.C. as the company's independent auditor for the fiscal year ending September 30, 1998. The selection of Jackson & Rhodes, P.C. was ratified:

FOR: 3,326,168 AGAINST: 15,775 ABSTAIN: 5,891

Item 6. Exhibits and Reports and Form 8-K

(a) Exhibits

27.1 Financial Data Schedule

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RICK'S CABARET INTERNATIONAL, INC.

Date: July 29, 1998	*By: /s/ Robert L. Watters*
	Robert L. Watters, President and Chief Accounting Officer

ARTICLE 5

MULTIPLIER: 1

PERIOD TYPE	3 MOS
FISCAL YEAR END	SEP 30 1998
PERIOD START	APR 01 1998
PERIOD END	JUN 30 1998
CASH	405972
SECURITIES	0
RECEIVABLES	129464
ALLOWANCES	0
INVENTORY	77027
CURRENT ASSETS	653687
PP&E	7952674
DEPRECIATION	1074360
TOTAL ASSETS	9866291
CURRENT LIABILITIES	1410324
BONDS	0
COMMON	48311
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	6658234
TOTAL LIABILITY AND EQUITY	9866291
SALES	2097954
TOTAL REVENUES	2097954
CGS	281520
TOTAL COSTS	2115221
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	92217
INCOME PRETAX	(108744)
INCOME TAX	0
INCOME CONTINUING	(108744)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(108744)
EPS PRIMARY	(.03)
EPS DILUTED	0

End of Filing