

RICKS CABARET INTERNATIONAL INC

FORM 10QSB (Quarterly Report of Financial Condition)

Filed 2/17/1998 For Period Ending 12/31/1997

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934; For the Quarterly Period Ended: December 31, 1997

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-26958

RIK'S CABARET INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction
of incorporation or organization)

76-0037324
(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 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

On February 12, 1998, there were 4,204,922 shares of common stock, \$.01 par value, outstanding.

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

RICK'S CABARET INTERNATIONAL, INC.

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

ASSETS

	DECEMBER 31, 1997 (UNAUDITED) -----	SEPTEMBER 30, 1997 -----
CURRENT ASSETS		
Cash	\$ 265,618	\$ 357,410
Accounts receivable	53,778	29,695
Prepaid expenses	95,282	57,413
Inventories	70,075	61,953
Land held for sale	--	815,652
	-----	-----
Total current assets	484,753	1,322,123
	-----	-----
PROPERTY AND EQUIPMENT		
Accumulated depreciation	8,399,407 (880,503)	6,473,919 (813,853)
	-----	-----
	7,518,904	5,660,066
	-----	-----
OTHER ASSETS		
	1,386,557	165,504
	-----	-----
	\$ 9,390,214	\$ 7,147,693
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Current portion of long term debt	\$ 375,998	\$ 398,798
Accounts payable - trade	452,663	634,046
Accrued expenses	138,045	166,365
Income tax payable	10,000	15,572
	-----	-----
Total current liabilities	976,706	1,214,781
	-----	-----
LONG TERM DEBT, LESS CURRENT PORTION	4,096,218	1,754,175
	-----	-----
Total Liabilities	5,072,924	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 4,234,737 and 4,114,922	42,049	41,149
Additional paid in capital	6,042,406	5,940,306
Retained earnings (deficit)	(1,767,165)	(1,802,718)
	-----	-----
Total stockholder's equity	4,317,290	4,178,737
	-----	-----
	\$9,390,214	\$7,147,693
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31, 1997 AND 1996

	1997 UNAUDITED -----	1996 UNAUDITED -----
REVENUES		
Sales of alcoholic beverages	\$ 856,274	\$ 549,927
Sales of food	101,217	67,495
Service revenues	345,917	421,625
Other	365,018	43,568
	-----	-----
	1,668,426	1,082,615
	-----	-----
OPERATING EXPENSES		
Cost of goods sold	213,182	198,691
Salaries and wages	448,644	437,789
Other general and administrative		
Taxes and permits	183,354	109,986
Charge card fees	31,133	19,356
Rent	150,722	93,141
Legal and accounting	54,842	114,308
Advertising	206,910	187,331
Other	299,929	331,271
	-----	-----
	1,588,716	1,491,873
	-----	-----
INCOME (LOSS) FROM OPERATION	79,710	(409,258)
Interest income (expense)	(44,157)	5,641
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	35,553	(403,617)
Income Taxes	--	--
	-----	-----
NET INCOME (LOSS)	\$ 35,553	\$ (403,617)
	=====	=====
NET INCOME (LOSS) PER COMMON SHARE	\$ 0.00	\$ (0.10)
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	4,174,830	4,099,307
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED DECEMBER 31, 1997 AND 1996

	1997 (UNAUDITED)	1996 (UNAUDITED)
	-----	-----
NET INCOME (LOSS)	\$ 35,553	\$ (403,617)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:		
Depreciation	66,650	40,568
Changes in assets and liabilities:		
Accounts receivable	(24,083)	(4,897)
Prepaid expenses	(37,869)	(65,339)
Inventories	(8,122)	(52,316)
Accounts payable and accrued expenses	(209,703)	135,540
Income tax payable/receivable	(5,572)	3,791
	-----	-----
Cash (used) by operating activities	(183,146)	(346,270)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of land	815,652	--
Additions to property and equipment	(1,822,488)	(3,259,112)
Increase in other assets	(1,221,053)	(231,086)
	-----	-----
Cash used by investing activities:	(2,227,889)	(3,490,198)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued, less offering costs	0	152,246
Increase in long term debt	2,700,000	1,730,000
Payments on long term debt	(380,757)	(13,549)
	-----	-----
Cash provided by financing activities:	2,319,243	1,868,697
	-----	-----
NET (DECREASE) IN CASH	(91,792)	(1,967,771)
CASH AT BEGINNING OF PERIOD	357,410	3,150,003
	-----	-----
CASH AT END OF PERIOD	\$ 265,618	\$ 1,182,232
	=====	=====
CASH PAID DURING PERIOD FOR:		
Interest	\$ 44,157	\$ 2,866
	=====	=====
Income tax	\$ --	\$ --
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1997

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 three months ended December 31, 1997 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, the Company 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 financial statements and notes thereto for the fiscal years ended September 30, 1997 and 1996.

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 new 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 expects to open its new facility in Minneapolis, Minnesota in February, 1998. The Company's fiscal year end is September 30.

Revenues are derived from the sale of liquor, beer, wine and food, which comprises approximately 57% of total revenues and charges to the entertainers, cover charges and other income which comprise approximately 43% for the quarter ended December 31, 1997.

Results of Operations

Three months ended December 31, 1997 as compared to the three months ended December 31, 1996. For the quarter ended December 31, 1997, the Company had consolidated total revenues of \$1,668,426 an increase of \$585,811 from fiscal first quarter ended December 31, 1996 of \$1,082,615.

The increase in revenues from 1996 is due to revenues arising from the Company's new location in New Orleans, which opened December 30, 1996. Revenues in Houston continue to be affected by the level of competition and by public perception of an ordinance enacted by the City Council of Houston in January, 1997 effecting sexually oriented businesses which is pending judicial review. The Company intends to open its third topless adult entertainment club in Minneapolis in late February, 1998.

Cost of goods sold were 22% and 32% of sales of alcoholic beverages and food for the first quarters of fiscal 1998 and 1997, respectively. The decrease in 1998 is due primarily to the continuing efforts

of management to achieve reductions in costs of goods sold through improved inventory management.

Payroll and related costs were \$448,644 for the first quarter compared to \$437,789 for the same fiscal period in 1996. The slight increase was not significant. Management currently believes that its labor and management staff levels are of appropriate levels and that additional management staff needed for the opening of the Minneapolis location will be largely obtained from existing ranks.

Other selling, general and administrative expenses increased 8% from the first quarter of fiscal 1997 to the first quarter of fiscal 1998. The increase was due primarily to operations attributable to the New Orleans' location.

Net interest income (expense) became an expense during the first quarter of fiscal 1997 as a result of utilizing the proceeds of the Company's public offering and private placement. Interest expense increased as a result of bank financing associated with the opening of the New Orleans' facility, the acquisition of the existing Houston facility and the acquisition of the Minneapolis facility. (See Liquidity and Capital Resources).

Net income for the first quarter of fiscal 1998 was \$35,553 compared to a loss of (\$403,617) for the first quarter of fiscal 1997.

Liquidity and Capital Resources

At December 31, 1997 the Company has a working capital deficit of \$491,953 compared to working capital of \$107,342 at September 30, 1997. The decrease in working capital is due primarily to the Company's investment in its opening of its facility in Minneapolis, Minnesota.

In the opinion of management, working capital is not a true indication of the status of the Company, due to the short cycle to liquidity, which results in the realization of cash within no more than five (5) days after culmination of a transaction.

Net cash used by operating activities in the first quarter of fiscal 1998 was \$183,146 compared to \$346,270 for the same period in fiscal 1997. The improvement in cash used by operating activities was due primarily to the net income of \$35,553 and depreciation of \$66,650.

Net cash used in investing activities was \$2,227,889 which resulted from the purchase in November, 1997 of the Minneapolis location. Cash provided by financing activities was \$2,319,243 due primarily to funding of purchase money loans on the acquisition of the Minneapolis location.

Management believes it has implemented plans that will ensure that the Company will continue its profitability in fiscal 1998. Management took steps in January, 1998 to restructure management compensation to reduce the salary costs of management and to reorganize its accounting function to more efficiently manage the business. Steps were also taken in January, 1998 to reduce advertising expenditures by over \$400,000 in fiscal 1998 compared to fiscal 1997. New Orleans represented the first expansion for the company outside of its original market of Houston, Texas and

as a result the opening expenses for New Orleans reflected the company's determination to make a market impact through widespread advertising. In Minneapolis, by comparison, the company will capitalize on its high traffic location and on the relative lack of competition instead of spending heavily on media and advertising. Extensive use will be made in opening the Minneapolis location on media materials developed for the opening of the New Orleans location. Emphasis will continue to be placed on reduction of Cost of Goods Sold by setting and monitoring management goals at each location.

Although the Company has not established lines of credit other than the existing debt, there can be no assurance that the Company will be able to obtain additional financing on reasonable terms, if at all. The Company has, however, developed numerous contacts with professionals who have expertise in raising capital through private placement of securities and the Company will look to the public marketplace to find the resources necessary to continue its planned expansion.

Because of the large volume of cash handled by the company, stringent cash controls have been implemented by the Company. These procedures have been improved over the life of the Company, to take advantage of improvements in technology. Management believes that it will be able to duplicate the financial controls that exist at its current location at future locations, and that these controls will provide sufficient safeguards to protect the interests of the Company. In the event the topless club industry is required to convert the entertainers who perform from independent contractor to employee status, the Company has prepared alternative plans that Management believes will protect the profitability of the Company. In addition, Management believes that the industry standard of treating the entertainers as independent contractors provides sufficient safe harbor protection to preclude any tax assessment for prior years payroll taxes.

The adult topless club entertainment business is highly competitive with respect to price, service and location, as well as the professionalism of the entertainment. Rick's Cabaret in Houston competes with a number of locally-owned adult cabarets, some of whose names enjoy recognition that equals that of Rick's. Although the Company believes that it is well-positioned to compete successfully in the future, there can be no assurance that Rick's will be able to maintain its high level of name recognition and prestige within the marketplace.

Seasonality

The Company is significantly affected by seasonal factors. Typically, Rick's has experienced reduced revenues from May through September. The Company has historically experienced its strongest operating results during October through April.

Special Note Regarding Forward Looking Information

The Management Discussion and Analysis contains various "forward looking statements" which represent the Company's expectations or beliefs concerning future events and involve a number of risks and uncertainties. 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 timing of the opening of the club in Minneapolis, Minnesota and the availability of acceptable financing to fund corporate expansion efforts.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ROBERT SABES LITIGATION. In January 1998, pursuant to a stipulation and agreement of all parties, an order of dismissal with prejudice was signed by the judge presiding in the matter of ROBERT W. SABES AND CLASSIC AFFAIRS, INC., D/B/A SHIEK'S PALACE ROYALE V. RICK'S CABARET INTERNATIONAL, INC., A TEXAS CORPORATION, RCI ENTERTAINMENT (MINNESOTA), INC. AND ROBERT L. WATTERS, Case No. 97-6457 in the Fourth Judicial District Court, County of Hennepin, State of Minnesota. The stipulation and agreement provided that Mr. Sabes take nothing from the litigation.

Item 5. OTHER EVENTS

In November 1997 the Company completed its acquisition of real estate located at 300 South and 3rd Street in downtown Minneapolis, Minnesota consisting of land and a 14,000 square foot cabaret facility (the "Location"), and the assets of "Buns & Roses", an adult entertainment business at the Location that has operated there for two years. The Company is currently remodeling the Location for an opening in late February 1998. The Company intends to offer topless adult entertainment, in a similar format of and bearing the name "Rick's Cabaret." The Location is at the intersection of two major streets and is located within walking distance of both the Metrodome, home to the Minnesota Vikings and the Twins, and the Target Center, home to the Minnesota Timberwolves. The City of Minneapolis has approved and granted a liquor license to Rick's Cabaret which will permit the operation of a topless cabaret as well as the ability to serve alcohol at the Location. The City of Minneapolis was chosen as a site for expansion by the Company because of the City's excellent demographic characteristics and vibrant nature of its downtown entertainment district.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits required by Item 601 of Regulation SB

(2) Exhibit 27. 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: February 12, 1998

By: /s/ ROBERT L. WATTERS

*Robert L. Watters, President
and Chief Accounting Officer*

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE REGISTRANT'S UNAUDITED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1997 AND UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE THREE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

CIK: 0000935419

NAME: Ricks Cabaret International, Inc.

MULTIPLIER: 1

PERIOD TYPE	3 MOS
FISCAL YEAR END	SEP 30 1998
PERIOD START	OCT 01 1997
PERIOD END	DEC 31 1997
CASH	265,618
SECURITIES	0
RECEIVABLES	53,778
ALLOWANCES	0
INVENTORY	70,075
CURRENT ASSETS	484,753
PP&E	8,399,407
DEPRECIATION	(880,503)
TOTAL ASSETS	9,390,214
CURRENT LIABILITIES	976,706
BONDS	4,096,218
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	42,049
OTHER SE	4,275,241
TOTAL LIABILITY AND EQUITY	9,390,214
SALES	1,668,426
TOTAL REVENUES	1,668,426
CGS	213,182
TOTAL COSTS	213,182
OTHER EXPENSES	1,375,534
LOSS PROVISION	0
INTEREST EXPENSE	44,157
INCOME PRETAX	35,553
INCOME TAX	0
INCOME CONTINUING	35,553
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	35,553
EPS PRIMARY	.00
EPS DILUTED	.00

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