RICKS CABARET INTERNATIONAL INC

FORM 10QSB
(Quarterly Report of Financial Condition)

Filed 5/15/1998 For Period Ending 3/31/1998

Address	505 NORTH BELT SUITE 630
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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: March 31, 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

On May 4, 1998, there were 4,506,054 shares of common stock, $.01 par value, outstanding.

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

RICK'S CABARET INTERNATIONAL, INC.

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None	
Signatures	

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

ASSETS

	MARCH 31, 1998 (UNAUDITED)	SEPTEMBER 30, 1997 (AUDITED)
CURRENT ASSETS		
Cash	$ 265,280	$ 357,410
Accounts receivable	132,536	29,695
Prepaid expenses	42,559	57,413
Inventories	81,142	61,953
Land held for sale	---	815,652
Total current assets	521,517	1,322,123
PROPERTY AND EQUIPMENT	7,873,262	6,473,919
Accumulated depreciation	(965,609)	(813,853)
	6,907,653	5,660,066
OTHER ASSETS		
Other	160,852	165,504
Goodwill (net of amortization)	2,224,572	---
	2,385,424	165,504
	$ 9,814,594	$ 7,147,693

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 31, 1998 (UNAUDITED)	SEPTEMBER 30, 1997 (AUDITED)
CURRENT LIABILITIES		
Current portion of long term debt	$ 532,847	$ 398,798
Accounts payable - trade	666,903	634,046
Accrued expenses	518,272	166,365
Income tax payable	15,572	15,572
Total current liabilities	1,733,594	1,214,781
LONG TERM DEBT, LESS CURRENT PORTION	3,881,856	1,754,175
Total liabilities	5,615,450	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 4,275,471 and 4,114,922	42,755	41,149
Additional paid in capital	6,123,790	5,940,306
Retained earnings (deficit)	(1,967,401)	(1,802,718)
Total stockholders' equity	4,199,144	4,178,737
	$ 9,814,594	$ 7,147,693

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

	THREE MONTHS ENDED MARCH 31		SIX MONTHS ENDED MARCH 31	
	1998 UNAUDITED	1997 UNAUDITED	1998 UNAUDITED	1997 UNAUDITED
REVENUES				
Sales.	$ 2,007,982	$ 1,960,642	$ 3,676,408	$ 3,043,257
OPERATING EXPENSES				
Cost of goods sold	311,345	387,258	524,527	589,963
Salaries and wages	571,598	597,014	1,020,242	1,080,574
Other general and administrative				
Taxes and permits.	183,626	69,868	366,980	180,467
Charge card fees	40,908	15,208	72,041	34,564
Rent	141,419	96,978	292,141	237,919
Legal and accounting	55,797	59,625	110,639	173,933
Advertising.	154,720	203,860	361,630	439,261
Other.	351,469	317,275	584,748	663,280
Pre-opening costs	187,991	---	187,991	151,138
Depreciation & amortization. . .	97,534	129,762	164,184	129,762
	2,096,407	1,876,666	3,685,123	3,680,861
INCOME (LOSS) FROM OPERATIONS. . . .	(88,425)	83,976	(8,715)	(637,604)
Interest expense	(116,425)	(42,191)	(160,582)	(42,191)
Interest income.	4,614	190	4,614	5,831
NET INCOME (LOSS).	$(200,236)	$ 41,975	$(164,683)	$(673,964)
NET INCOME (LOSS) PER COMMON SHARE	$(.05)	$ .01	$(.04)	$(.15)
WEIGHTED AVERAGE SHARES OUTSTANDING.	4,225,150	4,120,922	4,195,197	4,099,307

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED MARCH 31, 1998 AND 1997

	1998 (UNAUDITED)	1997 (UNAUDITED)
NET INCOME (LOSS)	$(164,683)	$(673,964)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Depreciation and amortization	164,184	129,762
Loss on sale of land	42,910	---
Changes in assets and liabilities:		
Accounts receivable	(102,841)	20,543
Prepaid expenses	14,854	(20,628)
Inventories	(19,189)	70,899
Accounts payable and accrued expenses	384,764	461,387
Income tax payable/receivable	---	3,791
Cash provided (used) by operating expenses.	319,999	(8,210)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(1,399,343)	(4,665,708)
Change in other assets	4,652	(100,969)
Increase in Goodwill	(2,147,000)	---
Sale of land	772,742	---
Cash used by investing activities	(2,768,949)	(4,766,677)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued, less offering costs	95,090	168,746
Increase in long term debt	2,700,000	1,800,000
Payments on long term debt	(438,270)	(28,388)
Cash provided by financing activities	2,356,820	1,940,358
NET (DECREASE) IN CASH	(92,130)	(2,834,529)
CASH AT BEGINNING OF PERIOD	357,410	3,150,003
CASH AT END OF PERIOD	$ 265,280	$ 315,474
CASH PAID DURING PERIOD FOR:		
Interest	$ 116,425	$ 42,000
Income tax	$ ---	$ ---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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 conjunct ion 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 six months ended March 31, 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 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 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 dance performances, cover charges and other income.

RESULTS OF OPERATIONS

Three months ended March 31, 1998 as compared to the three months ended March 31, 1997. For the quarter ended March 31, 1998, the Company had consolidated total revenues of $2,007,982 compared to revenues of $1,960,642 for the three months ended March 31, 1997, an increase of $47,340. The increase in revenues from 1997 is due to revenues arising from the Company's new location in Minneapolis, which opened March 5, 1998.

Cost of goods sold were 15.5% and 19.8% of all sales for the second 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 and occurred despite the increase in the costs incurred due to complimentary drinks given away during the grand opening of the new location in Minneapolis, Minnesota.

Payroll and related costs were $571,598 for the second quarter compared to $597,014 for the same fiscal period in 1997. The slight decrease was significant as it was achieved despite the increased costs associated with hiring and training a new staff for the Company's new location in Minneapolis. Management currently believes that its labor and management staff levels are of appropriate levels.

Other selling, general and administrative expenses increased 21% from the second quarter of fiscal 1997 to the second quarter of fiscal 1998. The increase was due primarily to sales tax increases in New Orleans and increased charge card fees reflecting a shift to credit card sales in New Orleans. Advertising decreased $49,140 for the quarter.

Net interest income was $4,614 for the quarter compared to $190 for the previous year. Management is very pleased with the income produced from operations during the quarter, which was in the amount of $197,100. Depreciation and Amortization, Pre-Opening Expenses for Minneapolis and Interest Expense, net of interest income, totaled $397,336. Interest Expense was $116,425 for the second quarter compared to $42,191 for the second quarter of 1997. The increase was attributable to interest expense arising from the acquisition of the Minneapolis location. Net Income was ($200,236) or a loss of .05 per share compared with income of .01 per share in the second quarter of 1997.

Six Months Ended March 31, 1998 compared to the Six Months Ended March 31, 1997. For the six months ended March 31, 1998, the Company had consolidated total revenues of $3,676,408, an increase of $633,151 from net revenues of $3,043,257 for the six months ended March 31, 1997.

Cost of goods sold was 14.3% and 19.4% of sales for the first six months of fiscal 1998 and 1997 respectively. (See management discussion above relating to this item.)

Payroll and related costs decreased $65,436 from the first six months of fiscal 1997. (See management discussion above relating to this item.)

Other selling, general and administrative expenses increased $130,030 from the first six months of fiscal 1997. (See management discussion above relating to this item.)

Net loss for the six months ended March 31, 1998 was $164,683. The company incurred depreciation and amortization of $164,184 for the six months ended March 31, 1998.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1998 the Company has a working capital deficit of $1,212,077 compared to working capital deficit of $606,370 at March 31, 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 provided by operating activities in the first six months of fiscal 1998 was $319,999 compared to net cash used of $8,210 for the same period in fiscal 1997. The improvement in cash provided by operating activities was due primarily to income from operations.

Net cash used in investing activities was $2,768,949 which resulted from the purchase in November, 1997 of the Minneapolis location. Cash provided by financing activities was $2,356,820 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 operational 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 significantly 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 expects to capitalize on its high traffic location and on the relative lack of competition instead of spending heavily on media and advertising. Extensive use was 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 Company is including the following cautionary statement in this Quarterly Report on Form 10-Q 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:

On February 27, 1998, the Company sold 100,000 shares of common stock to Sun Merchant Group, Inc. ("Sun Merchant") for consideration of $75,000.00 in reliance Section 4(2) of the Securities Act. Sun Merchant was an accredited investor as that term is defined in Regulation D of the Securities Act. The Company utilized the proceeds for general corporate purposes.

On February 24, 1998, the Company issued 95,000 shares of common stock to Larry Holmberg ("Holmberg") in reliance Section 4(2) of the Securities Act. This transaction was in connection with an asset purchase agreement related to the Company's acquisition of certain real estate and related assets in Minneapolis, Minnesota.

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: May 14, 1998

By:/s/ Robert L. Watters

Robert L. Watters, President

ARTICLE 5

MULTIPLIER: 1

PERIOD TYPE	3 MOS
FISCAL YEAR END	SEP 30 1998
PERIOD START	JAN 01 1998
PERIOD END	MAR 31 1998
CASH	265280
SECURITIES	0
RECEIVABLES	132536
ALLOWANCES	0
INVENTORY	81142
CURRENT ASSETS	521517
PP&E	7873262
DEPRECIATION	965609
TOTAL ASSETS	9814594
CURRENT LIABILITIES	1733594
BONDS	0
COMMON	42755
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	6123790
TOTAL LIABILITY AND EQUITY	9814594
SALES	2007982
TOTAL REVENUES	2007982
CGS	311345
TOTAL COSTS	2096407
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	116425
INCOME PRETAX	(200236)
INCOME TAX	0
INCOME CONTINUING	(200236)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(200236)
EPS PRIMARY	(0.05)
EPS DILUTED	(0.00)

End of Filing