

RICKS CABARET INTERNATIONAL INC

FORM 10QSB (Quarterly Report of Financial Condition)

Filed 2/14/1997 For Period Ending 12/31/1996

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, 1996

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
(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

At February 11, 1997, 4,114,922 shares of common stock, \$.01 par value, were outstanding.

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

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

ASSETS	December 31, 1996 ----- (unaudited)	September 30, 1996 -----
Current assets:		
Cash	\$ 1,182,232	\$ 3,150,003
Accounts receivable	78,428	73,531
Inventories	99,936	47,620
Prepaid expenses	237,537	172,198
Income taxes receivable	43,944	47,735
	-----	-----
Total current assets	1,642,077	3,491,087
	-----	-----
Property and equipment:		
Buildings, land and leasehold improvements	5,179,462	2,225,710
Furniture and equipment	1,047,680	742,320
	-----	-----
	6,227,142	2,968,030
	-----	-----
Less accumulated depreciation	(593,850)	(554,338)
	-----	-----
	5,633,292	2,413,692
	-----	-----
Other assets:		
Other	459,148	228,062
	-----	-----
	\$ 7,734,517	\$ 6,132,841
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 214,173	\$ 153,677
Accounts payable - trade	523,421	336,253
Accrued expenses	133,140	245,264
Income taxes payable	--	--
	-----	-----
Total current liabilities	870,734	735,194
Long-term debt, less current portion	1,795,333	77,826
	-----	-----
Total liabilities	2,666,067	813,020
	-----	-----
Commitments and contingencies	--	--
Stockholders' equity (Note 2):		
Preferred stock - \$.10 par, authorized 1,000,000 shares; none issued	--	--
Common stock - \$.01 par, authorized 15,000,000 shares; issued 4,114,922 and 4,068,077	41,149	40,681
Additional paid-in capital	5,940,306	5,788,528
Retained earnings (deficit)	(913,005)	(509,388)
	-----	-----
Total stockholders' equity	5,068,450	5,319,821
	-----	-----
	\$ 7,734,517	\$ 6,132,841
	=====	=====

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED DECEMBER 31, 1996 AND 1995

	1996	1995
	-----	-----
	(unaudited)	(unaudited)
Revenues:		
Sales of alcoholic beverages	\$ 549,927	\$ 566,108
Sales of food	67,495	39,925
Service revenues	421,625	447,562
Other	43,568	114,531
	-----	-----
	1,082,615	1,168,126
	-----	-----
Operating expenses:		
Cost of goods sold	198,691	214,950
Salaries and wages	437,789	370,291
Other general and administrative:		
Taxes and permits	109,986	142,329
Charge card fees	19,356	8,255
Rent	93,141	70,119
Legal and accounting	114,308	17,206
Advertising	187,331	182,554
Other	331,271	187,443
	-----	-----
	1,491,873	1,193,147
	-----	-----
Income (loss) from operations	(409,258)	(25,021)
Interest income	5,641	37,209
	-----	-----
Income (loss) before income taxes	(403,617)	12,188
Income taxes (benefit)	--	4,800
	-----	-----
Net income (loss)	\$ (403,617)	\$ 7,388
	=====	=====
Net income (loss) per common share	\$ (0.10)	\$ 0.00
	=====	=====
Weighted average shares outstanding	4,099,307	3,640,000
	=====	=====

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED DECEMBER 31, 1996 AND 1995

	1996	1995
	----- (unaudited)	----- (unaudited)
Net income (loss)	\$ (403,617)	\$ 7,388
Adjustments to reconcile net income (loss) to net cash (used) by operating activities:		
Depreciation	40,568	23,706
Changes in assets and liabilities:		
Accounts receivable	(4,897)	(3,026)
Inventories	(52,316)	(1,139)
Prepaid expenses and other assets	(65,339)	(22,635)
Accounts payable and accrued liabilities	135,540	(110,275)
Income taxes payable/receivable	3,791	4,800
Net cash (used) by operating activities	----- (346,270)	----- (101,181)
Cash flows from investing activities:		
Additions to property and equipment	(3,259,112)	(265,853)
Retirements of fully depreciated assets	--	--
Increase in other assets	(231,086)	(14,195)
Net cash used in investing activities	----- (3,490,198)	----- (280,048)
Cash flows from financing activities:		
Common stock issued, less offering costs	152,246	4,834,450
Increase in long-term debt	1,730,000	--
Payments on long-term debt	(13,549)	(108,579)
(Increase) decrease in deferred financing costs	--	(174,811)
Net cash provided (used) by financing activities	----- 1,868,697	----- 4,551,060
Net increase in cash	(1,967,771)	4,169,831
Cash at beginning of period	3,150,003	195,112
Cash at end of period	----- \$ 1,182,232	----- \$ 4,364,943
Cash paid during the period for:		
Interest	\$ 2,866	\$ 4,139
Income taxes	\$ --	\$ --

Non-cash transaction:

On December 29, 1994, the Company acquired certain land with a \$95,000 note

See accompanying notes to consolidated financial statements.

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

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, 1996 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, 1996 are not necessarily indicative of the results that may be expected for the year ending September 30, 1997.

2. PUBLIC OFFERING

On October 13, 1995, the Company completed its offering of 1,840,000 shares of common stock. The proceeds of the sale of stock amounted to approximately \$4,270,000 net of underwriting discounts, commissions, and expenses of the offering.

A portion of the proceeds of the Company's public offering has been used for capital improvements at the existing Houston, Texas location, acquisition of land for a new Houston location, demolition and refurbishment of the New Orleans location, payments on the Company's existing borrowings, and for working capital purposes. The balance is primarily being invested temporarily in cash equivalents and short term investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements appearing in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission for the year ending September 30, 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 which opened on December 30, 1996. In June 1996, the Company formed RCI Entertainment (Texas) Inc. for the purpose of acquiring 1.13 acres of land in Houston, Texas. The Company plans to build a new adult oriented nightclub at this location within the next eighteen to twenty four months. On December 17, 1996, the Company acquired the land and building at its primary Houston, Texas location thereby allowing the Company to remain at the location and settling some long-standing litigation. 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 and cover charges which comprise approximately 37% of total revenues for the first quarter of fiscal 1997 revenues. For the first quarter of fiscal 1996, these percentages were 51% and 38%, respectively. Cover charges, as a percentage of total revenues, increased slightly during the first quarter of fiscal 1996 due to the acquisition of Tantra, which derives a greater portion of its overall revenue from this source than does Rick's Cabaret. The remaining revenues are derived from the sale of memberships, merchandise, and miscellaneous other revenue sources. Membership sales are for access to Rick's VIP Room, and range in price from \$200 to \$1,200 for a lifetime membership or corporate membership. Additional benefits include a waiver of cover charges, 10% to 15% discount on drink prices, complimentary drink tickets and miscellaneous other benefits depending on the type of membership purchased. During the first quarter of fiscal 1997, the Company has been aggressively marketing its VIP memberships.

RESULTS OF OPERATIONS

Three Months Ended December 31, 1996 compared to the Three Months Ended December 31, 1995. For the quarter ending December 31, 1996, the Company had consolidated total revenues of \$1,082,615, a decrease of \$85,500 from fiscal 1996 first quarter revenues of

\$1,168,126. Single location revenues for Rick's Cabaret declined 15% from fiscal 1995 or approximately \$140,000. The decline at Rick's Cabaret is offset by Tantra revenues of \$248,000 during the quarter. The overall decline in revenues for Rick's Cabaret is attributable to the increased level of competition in the Houston, Texas area. Management intends to offset this decline with the opening of the New Orleans location on December 30, 1996. Currently management is also studying potential acquisition which would additionally serve to offset the current revenue declines.

Cost of goods sold were 32% and 37% of sales of alcoholic beverages and food for the first quarters of fiscal 1997 and 1996, respectively. Renovations to the kitchen area at Rick's Cabaret during the months of November and December, 1995 required the Company to use outside sources for catering lunch and dinner meals which resulted in a limited menu offerings at higher costs. Additionally, in order to capitalize on the media attention given the Company over the successful completion of the public offering, the Company had several promotional events where drinks were discounted, which resulted in decreased margin during 1995. Currently, management has been aggressively decreasing costs in the kitchen area by improving menu offerings and buying procedures.

Salaries and wages increased 18% or \$67,498 from the first quarter of fiscal 1996 due to the addition of Tantra personnel. Management staffing has been increased in order to have adequately trained personnel to assist with the planning and opening of additional locations which are currently being studied.

Other general and administrative expenses increased 41% or \$247,487 from the first quarter of fiscal 1996 to the first quarter of fiscal 1997. Charge card fees increased largely due to increased credit card sales during the first quarter of fiscal 1997. Advertising and promotion increased only slightly as the Company continued an extensive radio advertising campaign in order to capitalize on the extensive media attention the Company receives as a NASDAQ traded adult oriented business. Management believes the positive effects of advertising for the Company are often deferred for a period of several months. During fiscal year 1997, the Company continues to utilize an advertising and public relations firm to assist with the placement of advertising. During the quarter the Company capitalized an additional \$161,000 of pre-opening costs associated with the New Orleans location. As of December 31, 1996, the Company had capitalized \$336,000 of pre-opening costs associated with this location.

Interest income decreased during the first quarter of fiscal 1997 as a result of utilizing the proceeds of the Company's public offering. Interest expense was reduced during the first quarter of fiscal 1997 due to a reduction in the average amount of bank and lease financing debt outstanding during the first quarter of fiscal 1997. On December 17, the Company acquired its present Houston location and obtained \$1,000,000 in bank financing. Additionally, during the last half of December, the Company made draws against its construction financing in New Orleans. These events will serve to increase interest expense in future periods.

The Company experienced a net loss for the first quarter of fiscal 1997 of (\$403,617). Management anticipates that the Company will experience a significant revenue growth with the

opening of the New Orleans location which will serve to mitigate losses experienced during the last three quarters.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1996 the Company had working capital of \$771,343 as a result of the successful completion of the Company's initial public offering and a smaller private placement during September and October of 1996.

In the opinion of management, working capital is not a true indicator of the financial 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 the culmination of a transaction.

SEASONALITY

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

This Management Discussion and Analysis contains forward looking statements that 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 timing of the opening of the dinner theater in New Orleans, the lack market acceptance of this concept, and the availability of acceptable financing to fund corporate expansion efforts.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In Dallas J. Fontenot v. Trumps, Inc. and Robert L. Watters, Cause No. 94-057144 in the 127th District Court of Harris County, Texas (the "Fontenot Lawsuit"), Mr. Fontenot sued the Company and Mr. Watters for alleged breaches of an Agreement entered into in April, 1993 among Mr. Fontenot, the Company and Mr. Watters. Mr. Fontenot alleges that Mr. Watters and the Company have breached this Agreement, but does not indicate the manner in which the breach has occurred. The Company believes that it has fully complied with its obligations under this Agreement. The litigation is in its initial stages and no trial date has been set. The Company believes, after consultation with counsel, that it has substantial defenses to the claims being asserted against it and that the risk of material financial exposure to the Company is remote.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits required by Item 601 of Regulation S-B

(1) Exhibit 27 Financial Data Table

(b) Reports on Form 8-K

(2) On October 22, 1996, the Company filed a current report on Form 8-K regarding other events.

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 13, 1997

*By: /s/ Robert L. Watters

Robert L. Watters, President*

*By: /s/ Gary White

Gary White, Chief Financial
Officer and Chief Accounting
Officer*

INDEX TO EXHIBITS

Exhibit No. -----	Description -----
27	Financial Data Schedule

ARTICLE 5

CIK: 0000935419

NAME: RICK'S CABARET INTERNATIONAL, INC.

PERIOD TYPE	3 MOS
FISCAL YEAR END	SEP 30 1997
PERIOD START	OCT 01 1996
PERIOD END	DEC 30 1996
CASH	1,182,232
SECURITIES	0
RECEIVABLES	78,428
ALLOWANCES	0
INVENTORY	99,936
CURRENT ASSETS	1,642,077
PP&E	6,227,142
DEPRECIATION	(593,850)
TOTAL ASSETS	7,734,517
CURRENT LIABILITIES	870,734
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	41,149
OTHER SE	5,027,301
TOTAL LIABILITY AND EQUITY	5,068,450
SALES	1,082,615
TOTAL REVENUES	1,082,615
CGS	198,671
TOTAL COSTS	1,491,873
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	5,641
INCOME PRETAX	(403,617)
INCOME TAX	0
INCOME CONTINUING	(403,617)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(403,617)
EPS PRIMARY	(0.10)
EPS DILUTED	0

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