

# RICKS CABARET INTERNATIONAL INC

## FORM 10-Q (Quarterly Report)

Filed 8/14/1996 For Period Ending 6/30/1996

|             |  |
|-------------|--|
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| CIK         | 0000935419                                       |
| Industry    | Restaurants                                      |
| Sector      | Services   |
| Fiscal Year | 09/30  |

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# 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: June 30, 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   | 76-0037324                           |
| (State or other jurisdiction<br>of incorporation or organization) | (IRS Employer<br>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 June 30, 1996, 3,672,670 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.**

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

|   | June 30,<br>1996<br>-----<br>(unaudited) | September 30,<br>1995<br>----- |
|---|--|--------------------------------|
| <b>ASSETS</b>   |  |                                |
| Current assets:   |  |                                |
| Cash  | \$2,832,654                              | \$ 195,112                     |
| Accounts receivable   | 179,664                                  | -                              |
| Inventories   | 33,707                                   | 31,612                         |
| Prepaid expenses  | 181,069                                  | 51,455                         |
|   | -----                                    | -----                          |
| Total current assets  | 3,227,094                                | 278,179                        |
|   | -----                                    | -----                          |
| Property and equipment:   |  |                                |
| Buildings, land and leasehold improvements  | 1,852,863                                | 664,902                        |
| Furniture and equipment   | 736,470                                  | 486,447                        |
|   | -----                                    | -----                          |
|   | 2,589,333                                | 1,151,349                      |
|   | -----                                    | -----                          |
| Less accumulated depreciation   | (493,633)                                | (408,717)                      |
|   | -----                                    | -----                          |
|   | 2,095,700                                | 742,632                        |
|   | -----                                    | -----                          |
| Other assets:   |  |                                |
| Deferred offering costs (Note 2)  | -  | 389,680                        |
| Other   | 78,857                                   | 38,967                         |
|   | -----                                    | -----                          |
|   | \$5,401,651                              | \$1,449,458                    |
|   | =====                                    | =====                          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |  |                                |
| Current liabilities:  |  |                                |
| Current portion of long-term debt   | \$ 31,895                                | \$ 193,139                     |
| Accounts payable - trade  | 582,571                                  | 501,012                        |
| Accrued expenses  | 325,599                                  | 97,753                         |
| Income taxes payable  | 47,145                                   | 227,495                        |
|   | -----                                    | -----                          |
| Total current liabilities   | 987,210                                  | 1,019,399                      |
|   | -----                                    | -----                          |
| Long-term debt, less current portion  | 120,110                                  | 212,833                        |
|   | -----                                    | -----                          |
| Total liabilities   | 1,107,320                                | 1,232,232                      |
|   | -----                                    | -----                          |
| Commitments and contingencies   | -  | -                              |
| Stockholders' equity (Note 2):  |  |                                |
| Preferred stock - \$.10 par, authorized<br>1,000,000 shares; none issued                                |  | -                              |
| Common stock - \$.01 par, authorized 15,000,000 shares;<br>issued 3,672,670 and 1,800,000, respectively | 36,727                                   | 18,000                         |
| Additional paid in capital  | 4,417,897                                | -                              |
| Retained earnings (deficit)   | (160,293)                                | 199,226                        |
|   | -----                                    | -----                          |
| Total stockholders' equity  | 4,294,331                                | 217,226                        |
|   | -----                                    | -----                          |
|   | \$5,401,651                              | \$1,449,458                    |
|   | =====                                    | =====                          |

See accompanying notes to consolidated financial statements.

**RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTHS AND NINE MONTHS ENDED JUNE 30, 1996 AND 1995**

|                                     | Three Months Ended June 30, |             | Nine Months Ended June 30, |             |
|-------------------------------------|-----------------------------|-------------|----------------------------|-------------|
|                                     | 1996                        | 1995        | 1996                       | 1995        |
|                                     | (unaudited)                 | (unaudited) | (unaudited)                | (unaudited) |
| Revenues:                           |                             |             |                            |             |
| Sales of alcoholic beverages        | \$ 594,907                  | \$ 662,602  | \$1,790,913                | \$1,853,895 |
| Sales of food                       | 85,560                      | 44,367      | 218,289                    | 153,933     |
| Service revenues                    | 457,982                     | 457,044     | 1,370,312                  | 1,290,761   |
| Other                               | 11,831                      | 28,610      | 139,775                    | 178,556     |
|                                     | -----                       | -----       | -----                      | -----       |
|                                     | 1,150,280                   | 1,192,623   | 3,519,289                  | 3,477,145   |
|                                     | -----                       | -----       | -----                      | -----       |
| Operating expenses:                 |                             |             |                            |             |
| Cost of goods sold                  | 225,064                     | 191,144     | 660,756                    | 533,979     |
| Salaries and wages                  | 450,248                     | 299,464     | 1,245,176                  | 929,416     |
| Other general and administrative:   |                             |             |                            |             |
| Taxes and permits                   | 155,945                     | 134,110     | 460,285                    | 413,825     |
| Charge card fees                    | 24,260                      | 33,691      | 61,800                     | 101,836     |
| Rent                                | 95,107                      | 62,647      | 243,307                    | 267,466     |
| Legal and accounting                | 118,726                     | 50,552      | 158,299                    | 107,887     |
| Advertising                         | 124,406                     | 74,804      | 448,349                    | 231,114     |
| Other                               | 418,804                     | 229,872     | 866,950                    | 603,252     |
|                                     | -----                       | -----       | -----                      | -----       |
|                                     | 1,612,560                   | 1,076,284   | 4,144,922                  | 3,188,775   |
|                                     | -----                       | -----       | -----                      | -----       |
| Income (loss) from operations       | (462,280)                   | 116,339     | (625,633)                  | 288,370     |
| Other income (expense)              |                             |             |                            |             |
| Interest income                     | 41,949                      |             | 134,892                    |             |
| Interest expense                    | (4,196)                     | (17,674)    | (12,778)                   | (34,336)    |
|                                     | -----                       | -----       | -----                      | -----       |
|                                     | 37,753                      | (17,674)    | 122,114                    | (34,336)    |
|                                     | -----                       | -----       | -----                      | -----       |
| Income (loss) before income taxes   | (424,527)                   | 98,665      | (503,519)                  | 254,034     |
| Income taxes (benefit)              | (96,800)                    | 30,933      | (144,000)                  | 91,233      |
|                                     | -----                       | -----       | -----                      | -----       |
| Net income (loss)                   | \$ (327,727)                | \$ 67,732   | \$ (359,519)               | \$ 162,801  |
|                                     | =====                       | =====       | =====                      | =====       |
| Net income (loss) per common share  | \$ (0.09)                   | \$ 0.04     | \$ (0.10)                  | \$ 0.09     |
|                                     | =====                       | =====       | =====                      | =====       |
| Weighted average shares outstanding | 3,649,074                   | 1,800,000   | 3,643,025                  | 1,800,000   |
|                                     | =====                       | =====       | =====                      | =====       |

See accompanying notes to consolidated financial statements.

**RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED JUNE 30, 1996 AND 1995**

|  | 1996         | 1995        |
|--|--------------|-------------|
|  | -----        | -----       |
|  | (unaudited)  | (unaudited) |
| Net (loss) income  | \$ (359,519) | \$ 162,801  |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: |              |             |
| Depreciation   | 84,376       | 72,922      |
| Changes in assets and liabilities:   |              |             |
| Accounts receivable  | (179,664)    | (10,336)    |
| Inventories  | (2,095)      | (12,932)    |
| Prepaid expenses and other assets  | (129,614)    | (6,188)     |
| Accounts payable and accrued liabilities   | 309,405      | 104,663     |
| Income taxes payable   | (180,305)    | 37,551      |
|  | -----        | -----       |
| Net cash (used in) provided by operating activities  | (457,416)    | 348,481     |
|  | -----        | -----       |
| Cash flows from investing activities:  |              |             |
| Additions to property and equipment  | (1,437,984)  | (266,409)   |
| Increase in other assets   | (39,890)     | -           |
|  | -----        | -----       |
| Net cash used in investing activities  | (1,477,874)  | (266,409)   |
|  | -----        | -----       |
| Cash flows from financing activities:  |              |             |
| Proceeds from the sale of common stock   | 4,834,450    | -           |
| Common stock issued for services   | 111,109      | -           |
| Proceeds from borrowing  | -            | 244,075     |
| Payments on long-term debt   | (197,916)    | (200,809)   |
| Increase in deferred financing costs   | (174,811)    | (137,615)   |
|  | -----        | -----       |
| Net cash provided by (used in) financing activities  | 4,572,832    | (94,349)    |
|  | -----        | -----       |
| Net increase (decrease) in cash  | 2,637,542    | (12,277)    |
|  | -----        | -----       |
| Cash at beginning of period  | 195,112      | 113,630     |
|  | -----        | -----       |
| Cash at end of period  | \$ 2,832,654 | \$ 101,353  |
|  | =====        | =====       |
| Cash paid during the period for:   |              |             |
| Interest   | \$ 12,778    | \$ 34,336   |
|  | =====        | =====       |
| Income taxes   | \$ 181,000   | \$ 53,681   |
|  | =====        | =====       |

**Non-cash transactions:**

On December 29, 1994, the Company acquired certain land with a \$95,000 note. On May 21, 1996 the Company issued 16,667 shares of stock as compensation for service. On June 21, 1996 the Company issued 16,663 shares of stock as compensation for services.

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, 1995 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 and nine month periods ended June 30, 1996 are not necessarily indicative of the results that may be expected for the year ending September 30, 1996.

### **2. PUBLIC OFFERING**

On October 13, 1995, the Company completed its offering of 1,840,000 shares of common stock. The proceeds from 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, initial 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.

## PART I

### FINANCIAL INFORMATION

#### 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 appearing in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission for the fiscal year ending September 30, 1995.

##### 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 presently anticipates that it will open its new facility in New Orleans in November, 1996. 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 plans to build a new adult oriented nightclub at this location within the next twelve to eighteen months. The Company's fiscal year end is September 30.

Revenues are derived from the sale of liquor, beer, wine and food, which comprises approximately 59% of total revenues, and charges to the entertainers and cover charges which comprise approximately 40% of total revenues for the third quarter of fiscal 1996 revenues. For the third quarter of fiscal 1995, these percentages were 59% and 38%, respectively. 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 \$550 to \$1,200 for a lifetime membership. Additional benefits include 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. Membership sales were \$3,510 and \$7,950, which represented sales of 8 and 17 memberships, respectively, for the third quarter of fiscal years 1996 and 1995.

##### RESULTS OF OPERATIONS

Three Months Ended June 30, 1996 compared to the Three Months Ended June 30, 1995. For the quarter ending June 30, 1996, the Company had consolidated total revenues of \$1,150,280,



a decrease of \$42,343 from fiscal 1995 third quarter revenues of \$1,192,623. Single location revenues for Rick's Cabaret declined 7% from the third quarter of fiscal 1995 or approximately \$65,300. The decline at Rick's Cabaret is offset by Tantra revenues of \$215,000 during the third quarter of fiscal 1996 and \$135,113 during the same quarter in fiscal 1995. The overall decline in revenues for Rick's Cabaret is largely attributable to the increased level of competition in the Houston, Texas area. Management intends to offset this revenue decline with the opening of an additional location in New Orleans, Louisiana during the first quarter of fiscal 1997. Currently management is also studying potential acquisitions which would additionally serve to offset the current revenue declines.

Cost of goods sold were 33% and 27% of sales of alcoholic beverages and food for the third quarters of fiscal 1996 and 1995, respectively. This continues to remain an improvement from 37% which was experienced during the first quarter of fiscal 1996. Higher costs at that time were caused from renovations to the kitchen area at Rick's Cabaret during the months of November and December, 1995 causing 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 the first quarter of fiscal 1996. The Company has currently embarked on a program to improve margins from food sales and food service efficiency.

Salaries and wages increased 50% or \$150,784 from the third quarter of fiscal 1995 due to the addition of management personnel and staff in the kitchen and administrative areas of the Company. Management staffing is currently increased in order to have adequately trained personnel to assist with the planning, and pre-opening activities of the New Orleans location and other potential locations which are currently being studied.

Other general and administrative expenses increased 60% or \$351,572 from the third quarter of fiscal 1995 to the third quarter of fiscal 1996. Charge card fees decreased \$9,431 largely due to increased cash sales during the third quarter of fiscal 1996. Legal and accounting increased \$68,174 as a result of additional fees incurred as two of the Companies lawsuits approached the final settlement phases. Advertising and promotion increased by \$33,920 as the Company continued an outdoor advertising campaign in order to capitalize on the extensive media attention the Company attracted as a result of the public offering completion. Management believes the positive effects of advertising for the Company are often deferred for a period of several months. During fiscal year 1995, the Company engaged a advertising and public relations firm to assist with the placement of advertising. Other costs increased during the third quarter of fiscal 1996 as a result of (i) an accrual for \$85,000 to recognize refunds due wait staff employees in Houston for shift charges and tip processing fees. (ii) expense of \$56,000 to reflect the cost of a financial marketing company advising the Company in financial matters, (iii) and additional accrual of \$50,000 to reflect costs of a legal settlement and (iv) increased travel and lodging costs incurred by staff involved with the opening of the New Orleans location and the review of other potential acquisitions. During the third quarter of fiscal 1996, the Company recognized expenses of \$37,000 for rent and on-going facility costs relating to the New Orleans location which is currently undergoing renovation and is not expected to produce revenues until the first quarter of fiscal 1997.

Interest income increased to \$41,949 during the third quarter of fiscal 1996 as a result of investing the proceeds of the Company's public offering. Interest expense was reduced to \$4,196 from \$17,674 during the third quarter of fiscal 1996 due to a reduction in the average amount of bank and lease financing debt outstanding during the third quarter of fiscal 1996.

The Company experienced a net loss for the third quarter of fiscal 1996 of (\$327,727) compared to net income of \$67,732 for the third quarter of fiscal 1995. Management anticipates that the Company will also experience losses for the fourth quarter of fiscal 1996 and for the fiscal year ended September 30, 1996 and may continue to experience losses in early fiscal 1997 until revenue growth from acquisitions and the opening of new locations is realized.

Nine Months Ended June 30, 1996 compared to the Nine Months Ended June 30, 1995. For the nine months ended June 30, 1996, the Company had consolidated net revenues of \$3,519,289, an increase of \$42,144 from the net revenues of \$3,477,145 for the nine months ended June 30, 1995. Single location revenues of Rick's Cabaret declined approximately \$199,300 as compared to the first nine months of fiscal 1995. The decline at Rick's Cabaret is offset by Tantra revenues of \$291,507 during the nine months ended June 30, 1996.

Cost of goods sold were 33% and 27% of sales of alcoholic beverages and food for the first nine months of fiscal 1996 and 1995, 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 limited menu offerings at higher costs. For the fourth quarter of fiscal 1996, the Company has embarked on a program to improve margins from food sales and food service efficiency.

Salaries and wages increased 34% or \$315,760 from the first nine months of fiscal 1995 due to the addition of Tantra and the addition of management personnel and staff in anticipation of opening additional locations.

Other general and administrative expenses increased 30% or \$513,610 from the first nine months of fiscal 1995. Taxes and permits increased 11% from the first nine months of fiscal 1995 due to the acquisition and opening of Tantra. Charge card fees decreased \$40,036 largely due to increased cash sales during fiscal 1996. Rent declined due to the acquisition of a parking lot which was previously leased and is currently used extensively with the Tantra operation, however this decline is expected to reverse with the renovation of the New Orleans location. Legal and accounting increased \$50,412 as a result of additional fees incurred as two of the Company's lawsuits approached the final settlement phases. Advertising and promotion increased by \$217,235 as the Company started an extensive outdoor and radio advertising campaign. Management believes the positive effects of advertising for the Company are often deferred for a period of several months. During fiscal year 1995, the Company engaged an advertising and public relations firm to assist with the placement of advertising. Other costs increased during the nine months of fiscal 1996 as a result of (i) an accrual for \$85,000 to recognize refunds due wait staff employees in Houston for shift charges and tip processing fees, (ii) expense of \$56,000 to reflect the cost of a financial marketing company advising the Company in financial matters, (iii) and additional accrual of \$50,000 to reflect costs of a legal settlement and (iv) increased travel and lodging costs incurred

by staff involved with the opening of the New Orleans location and the review of other potential acquisitions. During the nine months of fiscal 1996, the Company recognized expenses of \$37,000 for rent and on-going facility costs relating to the New Orleans location which is currently undergoing renovation and is not expected to produce revenues until the first quarter of fiscal 1997.

Interest income increased to \$134,892 for the nine months ended June 30, 1996 as a result of investing the proceeds of the Company's public offering. Interest expense was reduced to \$12,778 from \$34,336 during the nine months of fiscal 1996 due to a reduction in the average amount of bank and lease financing debt outstanding.

The Company experienced a net loss for the nine months ended June 30, 1996 of (\$359,519) compared to net income of \$162,801 for the nine months of fiscal 1995. Management anticipates that the Company will also experience losses for the fourth quarter of fiscal 1996 and for the fiscal year ended September 30, 1996 and may continue to experience losses in early fiscal 1997 until revenue growth from acquisitions and the opening of new locations is realized.

## **LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 1996 the Company had working capital of \$2,095,884 as a result of the successful completion of the Company's initial public offering. Funds available to the Company (after deducting underwriting commissions and expenses associated with the offering) approximated \$4,270,000 and will be used for capital improvements to the original Houston location, opening two additional locations, and for general corporate working capital purposes.

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. In addition, trade payables and accrued liabilities are comprised of more than \$100,000 in legal fees and accrued settlements which are paid on extended terms. These legal fees and settlements resulted from litigation concluded in 1992 and the Company does not anticipate incurring legal fees to this extent in the future.

## **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.

## PART II

### OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

In Dallas Fontenot and Robert L. Watters v. Casa El Sol--Acapulco, S.A. and Zu Corporation, Cause No. 91-09194 in the 125th District Court of Harris County, Texas (the "Zu Lawsuit"), filed in 1991, Mr. Watters and a former stockholder of the Company (the "Plaintiffs") filed suit against another former stockholder of the Company (the "Defendant"). The suit sought to compel the Defendant to convey to the Plaintiffs all of its ownership interest in two entities, one of which, Zu Corporation, owns the land and building where Rick's is located and which is leased by the Company. The Defendant joined the Company as a party to the lawsuit, claiming that the Company had breached its lease agreement due to the alleged late payment of rent for one month. The case was tried in August, 1992 and judgment was rendered in favor of the Plaintiffs and the Company. The Defendant appealed this decision to the Texas Court of Appeals 14th Judicial District. The Court of Appeals, in an opinion rendered in August, 1995, reversed and remanded the case for a new trial in the District Court. Upon a re-hearing of this case, the Court of Appeals, in an opinion rendered February 1, 1996, from which one of three Justices dissented, reversed and rendered judgment against Mr. Watters and the Company. The Company filed a motion for rehearing of the decision of the Court of Appeals, which was denied on May 2, 1996.

The Company has filed an Application for Writ of Error with the Texas Supreme Court. Based on the reasoning of the dissenting opinion to the decision of the Court of Appeals, counsel to the Company believes that there is a likelihood that the Supreme Court will grant the Company's Application for Writ of Error. Counsel has advised the Company that this appellate process is likely to require from four to thirty months depending upon whether the Texas Supreme Court grants the Company's Application for Writ of Error. During this time, the Company anticipates that it will continue to operate in its present location.

If the Company is unsuccessful in overturning the decision of the Court of Appeals and is unable to successfully renegotiate a new lease, it will be necessary for the Company to relocate Rick's. While the Company believes that it could relocate Rick's to an equally desirable location, and, in fact, has recently completed the acquisition of a tract of land in Houston, Texas, upon which to build a new facility, such a move could have a material adverse impact on the Company. While the Company would extensively advertise its new location, it is possible that some customers would be lost to other competing clubs in the vicinity of Rick's present location. It is likely that a change in location would result in some decline in revenue for a period until goodwill could be established at the new location. Other adverse effects of a change of location could include the cost of the move and the lost revenue during any period that Rick's would be unable to operate during such move.

In Vernon Young, Jr. v. Dallas J. Fontenot, Jr., Trumps, Inc. and Robert Lewis Watters, Cause No. 87-33344 in the 11th District Court of Harris County, Texas (the "Young Lawsuit"), filed in 1987, Dallas Fontenot, one of the former stockholders of the Company was sued over his ownership interest in the Company. Mr. Watters and the Company were joined in the litigation based on allegations that they had improperly transferred certain assets to the Company from another corporation that had previously operated

Rick's. In June, 1993, Summary Judgment was rendered in favor of the Company and Mr. Watters by the District Court. Subsequent to an appeal by the party suing the former stockholder, the Texas Court of Appeals, 8th Judicial District reversed the summary judgment and remanded the case to the trial court. The Company filed an application for Writ of Error with the Texas Supreme Court. This Writ was denied and the case was remanded to the district court for trial. The Company and Mr. Watters recently mediated this matter and pursuant to such mediation, entered into a settlement agreement with the Plaintiff, Mr. Young. The settlement agreement provides that the litigation will be dismissed, with prejudice, as to the Company, Mr. Watters and all other entities with which Mr. Watters is or was associated. The documents evidencing this settlement agreement are presently being prepared by legal counsel. If, for any reason, this settlement is not consummated, 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. There can be no assurance, however, that the Company will be successful in asserting its defenses or that any judgment that may be rendered against the Company will not be material.

In Richard Ball, Cynthia Ball, Eric Ward, Malia Gurney, as next friend of Jonathan Ward and Joshua Ward, minors, Wayne Ward and Frances Ward v. Trumps, Inc., d/b/a Rick's Cabaret and 3113 Bering Corporation d/b/a Rick's Cabaret, Cause No. 93-060776 (the "Ball Lawsuit"), filed in 1993, the Company was sued by the relatives of a deceased car accident victim. This suit, filed in the 190th District Court of Harris County, Texas, alleged that one of the Company's employees wrongfully caused the death of the accident victim. The suit alleged that an employee of the Company had become intoxicated at Rick's and subsequently was involved in an automobile accident in which the victim was killed. The Company answered the Original Complaint and denied all of the allegations. The Company recently settled this litigation making a nominal payment of less than \$4,000 to the Plaintiffs.

#### **ITEM. 5 OTHER INFORMATION.**

On July 11, 1996, the Company entered into an agreement with Classic Affairs, Inc., to purchase Shiek's Palace Royale in Minneapolis, Minnesota. The agreement with Shiek's Palace Royale, is subject to the completion of due diligence and approval of the Board of Directors of the Company and regulatory authorities.

Shiek's Palace Royale, a first class cabaret featuring adult entertainment located in downtown Minneapolis, has been in existence for eight years, and is currently the premiere adult cabaret in Minneapolis. Known as one of the nation's finest clubs it is situated in an historic landmark building which once housed the Federal Reserve Bank in Minneapolis, and is signed to a twenty year lease.

The Company plans for the facility to include minor interior refurbishing and expansion of the kitchen facilities. The Company's plans are to offer a first class menu to complement the outstanding entertainment presently offered by Shiek's Palace Royale.

Located within walking distance of the nightclub is the Target Center and The Metrodome where The Minnesota Timberwolves, The Vikings and The Twins play. The city is known both for its well-developed downtown entertainment venue and for the number of Fortune 500 companies headquartered in the city. The Minneapolis/St. Paul area has a population of nearly 2.5 million people.

**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: August 13, 1996*

*By: /s/ Robert L. Watters*

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*Robert L. Watters, President*

*By: /s/ Gary White*

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*Gary White, Chief Financial Officer and  
Chief Accounting Officer*

## INDEX TO EXHIBITS

| EXHIBIT NO.<br>----- | DESCRIPTION<br>-----    |
|----------------------|-------------------------|
| 27                   | Financial Data Schedule |

**ARTICLE 5**

CIK: 0000935419

NAME: RICK'S CABARET INTERNATIONAL INC.

|                            |             |
|----------------------------|-------------|
| PERIOD TYPE                | 3 MOS       |
| FISCAL YEAR END            | SEP 30 1996 |
| PERIOD START               | OCT 01 1995 |
| PERIOD END                 | JUN 30 1996 |
| CASH                       | 2,832,654   |
| SECURITIES                 | 0           |
| RECEIVABLES                | 179,664     |
| ALLOWANCES                 | 0           |
| INVENTORY                  | 33,707      |
| CURRENT ASSETS             | 3,227,094   |
| PP&E                       | 2,589,333   |
| DEPRECIATION               | 493,633     |
| TOTAL ASSETS               | 5,401,651   |
| CURRENT LIABILITIES        | 987,210     |
| BONDS                      | 0           |
| COMMON                     | 36,727      |
| PREFERRED MANDATORY        | 0           |
| PREFERRED                  | 0           |
| OTHER SE                   | 4,257,604   |
| TOTAL LIABILITY AND EQUITY | 5,401,651   |
| SALES                      | 1,150,280   |
| TOTAL REVENUES             | 1,150,280   |
| CGS                        | 225,064     |
| TOTAL COSTS                | 1,387,496   |
| OTHER EXPENSES             | 1,387,496   |
| LOSS PROVISION             | 0           |
| INTEREST EXPENSE           | 4,196       |
| INCOME PRETAX              | (427,527)   |
| INCOME TAX                 | (96,800)    |
| INCOME CONTINUING          | (327,727)   |
| DISCONTINUED               | 0           |
| EXTRAORDINARY              | 0           |
| CHANGES                    | 0           |
| NET INCOME                 | (327,727)   |
| EPS PRIMARY                | (0.09)      |
| EPS DILUTED                | 0           |

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