

RICKS CABARET INTERNATIONAL INC

FORM 10QSB (Quarterly Report of Financial Condition)

Filed 5/15/1996 For Period Ending 3/31/1996

Address	505 NORTH BELT SUITE 630 HOUSTON, Texas 77060
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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: March 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 May 10, 1996, 3,640,000 shares of common stock, \$.01 par value, were 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

	March 31, 1996	September 30, 1995
	-----	-----
	(unaudited)	
ASSETS		
Current assets:		
Cash	\$ 3,838,769	\$ 195,112
Accounts receivable	21,723	--
Inventories	31,606	31,612
Prepaid expenses	56,684	51,455
	-----	-----
Total current assets	3,948,782	278,179
	-----	-----
Property and equipment:		
Buildings, land and leasehold improvements	949,090	664,902
Furniture and equipment	731,597	486,447
	-----	-----
	1,680,687	1,151,349
	-----	-----
Less accumulated depreciation	(464,537)	(408,717)
	-----	-----
	1,216,150	742,632
	-----	-----
Other assets:		
Deferred offering costs (Note 2)	--	389,680
Other	61,912	38,967
	-----	-----
	\$ 5,226,844	\$ 1,449,458
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 117,703	\$ 193,139
Accounts payable - trade	338,542	501,012
Accrued expenses	169,532	97,753
Income taxes payable	46,495	227,495
	-----	-----
Total current liabilities	672,272	1,019,399
	-----	-----
Long-term debt, less current portion	158,567	212,833
	-----	-----
Total liabilities	830,839	1,232,232
	-----	-----
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 3,640,000 and 1,800,000, respectively	36,400	18,000
Additional paid in capital	4,251,559	--
Retained earnings	108,046	199,226
	-----	-----
Total stockholders' equity	4,396,005	217,226
	-----	-----
	\$ 5,226,844	\$ 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 Six Months Ended March 31, 1996 and 1995

	Three Months Ended March 31,		Six Months Ended March 31,	
	1996	1995	1996	1995
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues:				
Sales of alcoholic beverages	\$ 629,898	\$ 663,721	\$ 1,196,006	\$ 1,191,293
Sales of food	92,804	58,563	132,729	109,566
Service revenues	464,768	471,874	912,330	833,717
Other	13,413	101,335	127,944	149,946
	1,200,883	1,295,493	2,369,009	2,284,522
Operating expenses:				
Cost of goods sold	220,742	193,882	435,692	342,835
Salaries and wages	424,637	358,643	794,928	629,952
Other general and administrative:				
Taxes and permits	162,011	162,271	304,340	279,715
Charge card fees	29,285	39,154	37,540	68,145
Rent	78,081	112,838	148,200	204,819
Legal and accounting	22,367	44,457	39,573	57,335
Advertising	141,389	86,853	323,943	156,310
Other	260,703	194,528	448,146	373,380
	1,339,215	1,192,626	2,532,362	2,112,491
Income (loss) from operations	(138,332)	102,867	(163,353)	172,031
Other income (expense)				
Interest income	51,595	439	92,943	439
Interest expense	(4,443)	(6,596)	(8,582)	(17,101)
	47,152	(6,157)	84,361	(16,662)
Income (loss) before income taxes	(91,180)	96,710	(78,992)	155,369
Income taxes	--	37,300	4,800	60,300
Net income (loss)	\$ (91,180)	\$ 59,410	\$ (83,792)	\$ 95,069
Net income (loss) per common share	\$ (0.03)	\$ 0.03	\$ (0.02)	\$ 0.05
Weighted average shares outstanding	3,640,000	1,800,000	3,640,000	1,800,000

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended March 31, 1996 and 1995

	1996	1995
	----- (unaudited)	----- (unaudited)
Net (loss) income	\$ (83,792)	\$ 95,069
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	55,820	45,550
Changes in assets and liabilities:		
Accounts receivable	(21,723)	(13,137)
Inventories	6	(12,226)
Prepaid expenses and other assets	(5,229)	
Accounts payable and accrued liabilities	(90,691)	(74,676)
Income taxes payable	(181,000)	20,000
Net cash (used in) provided by operating activities	----- (326,609)	----- 60,580
Cash flows from investing activities:		
Additions to property and equipment	(529,338)	(86,533)
Increase in other assets	(22,945)	(1,054)
Net cash used in investing activities	----- (552,283)	----- (87,587)
Cash flows from financing activities:		
Proceeds from the sale of common stock	4,834,450	1,777
Proceeds from borrowing		161,137
Payments on long-term debt	(137,090)	
Increase in deferred financing costs	(174,811)	(150,043)
Net cash provided by financing activities	----- 4,522,549	----- 12,871
Net increase (decrease) in cash	3,643,657	(14,136)
Cash at beginning of period	----- 195,112	----- 113,630
Cash at end of period	\$ 3,838,769 =====	\$ 99,494 =====
Cash paid during the period for:		
Interest	\$ 8,582 =====	\$ 10,505 =====
Income taxes	\$ 181,000 =====	\$ 20,000 =====

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, 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 six month periods ended March 31, 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, payments on the Company's existing borrowings, and for working capital. The balance is primarily being invested temporarily in cash equivalents and short term investments.

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. The Company's fiscal year end is September 30.

Revenues are derived from the sale of liquor, beer, wine and food, which comprises approximately 60% of total revenues, and charges to the entertainers and cover charges which comprise approximately 38% of total revenues for the second quarter of fiscal 1996 revenues. For the second quarter of fiscal 1995, these percentages were 56% and 36%, 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 \$9,550 and \$14,850, which represented sales of 12 and 18 memberships, respectively, for the second quarter of fiscal years 1996 and 1995.

RESULTS OF OPERATIONS

Three Months Ended March 31, 1996 compared to the Three Months Ended March 31, 1995. For the quarter ending March 31, 1996, the Company had consolidated total revenues of \$1,200,883, a decrease of \$94,610 from fiscal 1995 second quarter revenues of \$1,295,493. Single location revenues for Rick's Cabaret declined 10% from the second quarter of fiscal 1995 or approximately \$110,000. The decline at Rick's Cabaret is offset by Tantra revenues of \$170,000 during the second quarter of fiscal 1996 and \$155,000 during its first quarter of operations 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 31% and 27% of sales of alcoholic beverages and food for the second quarters of fiscal 1996 and 1995, respectively. This is 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.

Salaries and wages increased 18% or \$65,994 from the second 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 8% or \$53,735 from the second quarter of fiscal 1995 to the second quarter of fiscal 1996. Charge card fees decreased \$9,869 largely due to increased cash sales during the second quarter of fiscal 1996. Advertising and promotion increased by \$54,536 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 an advertising and public relations firm to assist with the placement of advertising. Other costs increased during the second quarter of fiscal 1996 as a result of increased travel and lodging costs incurred by staff involved with the opening of the New Orleans location and the review of other potential acquisitions.

Interest income increased to \$51,595 during the second quarter of fiscal 1996 as a result of investing the proceeds of the Company's public offering. Interest expense was reduced to \$4,443 from \$6,596 during the second quarter of fiscal 1996 due to a reduction in the average amount of bank and lease financing debt outstanding during the second quarter of fiscal 1996.

The Company experienced a net loss for the second quarter of fiscal 1996 of (\$91,180) compared to net income of \$59,410 for the second quarter of fiscal 1995. Management anticipates that the Company may also experience losses for the third and fourth quarters of fiscal 1996 until revenue growth from acquisitions and the opening of new locations is realized.

Six Months Ended March 31, 1996 compared to the Six Months Ended March 31, 1995. For the six months March 31, 1996, the Company had consolidated net revenues of \$2,369,009, an increase of \$84,487 from the net revenues of \$2,284,522 for the six months ended March 31, 1995. Single location revenues of Rick's Cabaret declined 7% as compared to the first six months of fiscal 1995

or approximately \$134,000. The decline at Rick's Cabaret is offset by Tantra revenues of \$373,581 during the six months ended March 31, 1996.

Cost of goods sold were 33% and 26% of sales of alcoholic beverages and food for the first six 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.

Salaries and wages increased 26% or \$164,976 from the first six months of fiscal 1995 due to the addition of Tantra (\$46,716) and the addition of management personnel and staff in anticipation of opening additional locations.

Other general and administrative expenses increased 14% or \$162,038 from the first six months of fiscal 1995. Taxes and permits increased 9% from the first six months of fiscal 1995 due to the acquisition and opening of Tantra. Charge card fees decreased \$30,605 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. Advertising and promotion increased by \$167,633 as the Company started and 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 as result of increased travel and lodging costs incurred by staff involved with the opening of the New Orleans location and the review of other potential acquisitions.

Interest income increased to \$92,943 for the six months ended March 31, 1996 as a result of investing the proceeds of the Company's public offering. Interest expense was reduced to \$8,582 from \$17,101 during the six 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 six months ended March 31, 1996 of (\$83,792) compared to net income of \$95,069 for the six months of fiscal 1995. Management anticipates that the Company may also experience losses for the third and fourth quarters of fiscal 1996 until revenue growth from acquisitions and the opening of new locations is realized.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1996 the Company had working capital of \$3,276,510 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 intends to file 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, 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.

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, 1996

By: /s/ Robert L. Watters

Robert L. Watters, President

By: /s/ Gary White

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

EXHIBIT INDEX

27 -- Financial Data Schedule

ARTICLE 5

PERIOD TYPE	6 MOS
FISCAL YEAR END	SEP 30 1996
PERIOD START	OCT 01 1995
PERIOD END	MAR 31 1996
CASH	3,838,769
SECURITIES	0
RECEIVABLES	21,723
ALLOWANCES	0
INVENTORY	31,606
CURRENT ASSETS	3,948,782
PP&E	1,680,687
DEPRECIATION	464,537
TOTAL ASSETS	5,226,844
CURRENT LIABILITIES	672,272
BONDS	0
COMMON	36,400
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	4,359,605
TOTAL LIABILITY AND EQUITY	5,226,844
SALES	1,200,883
TOTAL REVENUES	1,220,883
CGS	220,742
TOTAL COSTS	220,742
OTHER EXPENSES	1,118,473
LOSS PROVISION	0
INTEREST EXPENSE	4,443
INCOME PRETAX	(91,180)
INCOME TAX	0
INCOME CONTINUING	(91,180)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(91,180)
EPS PRIMARY	(.03)
EPS DILUTED	0

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