

RICKS CABARET INTERNATIONAL INC

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 5/17/1999 For Period Ending 3/31/1999

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: March 31, 1999

☐ 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.)

505 North Belt, Suite 630
Houston, Texas 77060
(Address of principal executive offices, including zip code)

(281) 820-1181
(Registrant's telephone number, including area code)

Check whether the issuer (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such
reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
☐

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the
distribution of securities under a plan confirmed by court. Yes ☐ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS

On May 3, 1999, there were 3,297,983 shares of common stock, \$.01 par value, outstanding.

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

RICK'S CABARET INTERNATIONAL, INC.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS

	3/31/99 (UNAUDITED)	9/30/98 (UNAUDITED)
CURRENT ASSETS		
Cash	\$ 1,195,984	\$ 597,644
Accounts receivable	669,294	58,023
Prepaid expenses	190,236	34,876
Inventories	94,543	94,633
Land held for sale	569,069	569,069
	-----	-----
Total current assets	2,719,126	1,354,245
	-----	-----
PROPERTY AND EQUIPMENT		
Buildings, lands and leasehold improvements	7,330,187	9,851,798
Furniture & equipment	1,336,773	1,609,031
	-----	-----
	8,666,960	11,460,829
Accumulated depreciation	(1,197,491)	(1,213,557)
	-----	-----
	7,469,469	10,247,272
	-----	-----
OTHER ASSETS		
Goodwill less accumulated amortization	3,053,580	3,154,804
Other	59,278	112,025
	-----	-----
	3,112,858	3,266,829
	-----	-----
	\$13,301,453	\$14,868,346
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Current portion of long term debt	\$ 460,586	\$ 718,636
Accounts payable - trade	807,780	1,179,410
Accrued expenses	332,079	344,032
	-----	-----
Total current liabilities	1,600,445	2,242,078
LONG TERM DEBT, LESS CURRENT PORTION		
Long-term debt less current portion	4,396,622	6,015,903
	-----	-----
Total Liabilities	5,997,067	8,257,981
	-----	-----
COMMITMENTS AND CONTINGENCIES	---	---
MINORITY INTERESTS	13,090	11,896
STOCKHOLDERS' EQUITY		
Preferred stock - \$.10 par, authorized 1,000,000 shares; none outstanding	---	---
Common stock - \$.01 par, authorized 15,000,000 shares issued 3,273,727 and 3,233,677	32,737	32,337
Additional paid in capital	8,973,314	8,973,714
Retained earnings (deficit)	(1,714,755)	(2,407,582)
	-----	-----
Total stockholder's equity	7,291,296	6,598,469
	-----	-----

\$13,301,453 \$14,868,346
=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	1999	1998	1999	1998
REVENUES				
Sales	\$3,096,483	\$2,007,982	\$6,414,452	\$3,676,408
	-----	-----	-----	-----
OPERATING EXPENSES				
Cost of goods sold	402,846	311,345	890,705	524,527
Salaries and wages	965,646	571,598	1,970,589	1,020,242
Other general and administrative				
Taxes and permits	503,355	183,626	792,051	366,980
Charge card fees	34,982	40,908	92,489	72,041
Rent	132,879	141,419	268,034	292,141
Legal and accounting	185,689	55,797	327,797	110,639
Advertising	112,231	154,720	310,654	361,630
Preopening Costs	0	187,991	0	187,991
Other	566,868	449,003	1,144,339	748,932
	-----	-----	-----	-----
	2,904,496	2,096,407	5,796,658	3,685,123
	-----	-----	-----	-----
INCOME/(LOSS) FROM OPERATIONS	191,987	(88,425)	617,794	(8,715)
Interest Expense	(167,182)	(116,425)	(310,426)	(160,582)
Interest Income	145	4,614	656	4,614
Loss on Termination of Lease	(219,780)		(219,780)	
Gain on Sale of Subsidiary	347,991		347,991	
	-----	-----	-----	-----
NET INCOME/(LOSS) BEFORE EXTRAORDINARY ITEM	153,161	(200,236)	436,235	(164,683)
EXTRAORDINARY ITEM				
Gain on Fire Damage	256,592		256,592	
	-----	-----	-----	-----
NET INCOME/(LOSS)	\$ 409,753	\$ (200,236)	\$ 692,827	\$ (164,683)
	=====	=====	=====	=====
BASIC NET INCOME (LOSS) PER COMMON SHARE:				
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	\$ 0.05	\$ (0.09)	\$ 0.13	\$ (0.08)
EXTRAORDINARY ITEM	0.08	0.00	0.08	0.00
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 0.13	\$ (0.09)	\$ 0.21	\$ (0.08)
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	3,273,727	2,112,575	3,263,714	2,097,599
	=====	=====	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
SIX MONTHS ENDED MARCH 31, 1999 AND 1998

	1999 (UNAUDITED)	1998 (UNAUDITED)
NET INCOME	\$ 692,827	\$ (164,683)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Depreciation and amortization	236,013	164,184
Loss on sale of land	0	42,910
Gain on fire damage and disposal of assets	(247,865)	0
Loss on termination of lease	219,780	0
Gain on sale of subsidiary	(347,991)	0
Minority Interest	8,390	0
Changes in assets and liabilities:		
Accounts receivable	(611,271)	(102,841)
Prepaid expenses	(155,360)	14,854
Inventories	90	(19,189)

Other assets	52,747	4,652
Accounts payable and accrued expenses	(383,583)	384,764
	-----	-----
Cash provided (used) by operating expenses	(536,224)	324,651
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property equipment	(239,316)	(1,399,343)
Increase in goodwill	0	(2,147,000)
Proceeds from insurance on fire damage	504,457	0
Proceeds from sale of subsidiary	1,057,327	
Proceeds from sale of land	0	772,742
	-----	-----
Cash provided (used) by investing activities	1,322,468	(2,773,601)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued, less offering costs	0	95,090
Increase in long term debt	0	2,700,000
Payments on long term debt	(187,904)	(438,270)
	-----	-----
Cash provided (used) by financing activities	(187,904)	2,356,820
	-----	-----
NET (DECREASE) IN CASH	598,340	(92,130)
CASH AT BEGINNING OF PERIOD	597,644	357,410
	-----	-----
CASH AT END OF PERIOD	\$ 1,195,984	\$ 265,280
	=====	=====
CASH PAID DURING PERIOD FOR:		
Interest	\$ 167,182	\$ 116,425
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1999

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, 1998 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 six months ended March 31, 1999 are not necessarily indicative of the results that may be expected for the year ending September 30, 1999.

2. FIRE DAMAGE

On December 15, 1998, a fire damaged the adult entertainment facility known as XTC Cabaret at Gulf Freeway located in Houston, Texas. The Company incurred a material decline in revenues subsequent to the closure of XTC - Houston. The insurance settlement resulted in an extraordinary gain of \$256,592.

3. TERMINATION OF LEASE

On February 28, 1999, the Company and the Landlord agreed to terminate the lease of one of the Company's subsidiaries known as Lucky's located in New Orleans, Louisiana. The transaction resulted in a loss of \$219,780.

4. SALE OF SUBSIDIARY

On March 29, 1999, an investment partnership, headed by Eric Langan, President of Rick's Cabaret International, Inc. ("Company"), and another investor, acquired all of Robert Watters' 895,000 outstanding shares of stock of the Company (post reverse split). At the same time, the Company sold one of its subsidiaries, RCI Entertainment Louisiana, Inc. ("Rick's New Orleans"), which operates a Rick's Cabaret in New Orleans, Louisiana, to Robert Watters for the purchase price of \$2,200,000, consisting of \$1,057,327 in cash, a \$652,744 secured promissory note made by one or the purchasers of Robert Watters' stock, a \$326,773 secured promissory note by Robert Watters, and the cancellation by Robert Watters of the Company's \$163,156 debt to him.

5. REVERSE SPLIT 2 FOR 1

On March 3, 1999, the Company had approved a two-for-one reverse stock split, which became effective and of record on March 15, 1999. All shares and per share amounts in the accompanying financial statements have been retroactively adjusted for the reverse split.

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, 1998. 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. Rick's Cabaret International, Inc. ("Rick's" or the "Company") currently owns and operates premiere adult nightclubs offering adult entertainment and restaurant and bar operations. The Company has two adult nightclubs in operation in Houston, Texas as well as a non-sexually oriented discotheque, Tantra. Additionally, the Company has adult nightclubs in operation in Austin, Texas and Minneapolis, Minnesota. The Company owns the original location of Rick's Cabaret on Bering Drive in Houston, Texas, the location of Tantra discotheque, in Houston, Texas, the location in north Houston, Texas located near George Bush Intercontinental Airport, the location in Austin, Texas, and the location in Minneapolis, Minnesota. Revenues are derived from the sale of liquor, beer, wine and food, as well as from dancer performances, cover charges and other income.

In March, 1999, the Company sold its New Orleans club for \$2,200,000, of which \$1,057,327 was in cash with the balance in secured promissory notes and forgiveness of debt. At the same time, the Company reduced its payroll costs by terminating two executive employment agreements. The Company plans to utilize these funds and the expected payroll savings to open a club in San Antonio, Texas and to operate an e-commerce adult internet website.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 1999 AS COMPARED TO THE THREE AND SIX MONTHS ENDED MARCH 31, 1998

For the quarter ended March 31, 1999, the Company had consolidated total revenues of \$3,096,483 compared to consolidated total revenues of \$2,007,962 for the fiscal quarter ended March 31, 1998, or an increase of \$1,088,521. The increase in total revenues was due to increased number of the Company's locations.

The cost of goods sold for the quarter ended March 31, 1999 was 13.01% of total revenues compared to 15.51% for the quarter ended March 31, 1998. The decrease was due primarily to the continuing efforts of management to achieve reductions in cost of goods sold through improved inventory management. The Company continues a program to improve margins from liquor and food sales and food service efficiency.

Payroll and related costs for the quarter ended March 31, 1999 were \$965,464 compared to \$571,598 for the quarter ended March 31, 1998. The increase was a reflection of the additional personnel experienced by the company as it adds more locations. Management currently believes that its labor and management staff levels are of appropriate levels.

Other selling, general and administrative expenses for the quarter ended March 31, 1999 were \$1,536,004 compared to \$1,213,464 for the quarter ended March 31, 1998. The increase was due to increased number of the Company's locations and costs associated with the sale of the Louisiana subsidiary.

Interest expense for the quarter ended March 31, 1999 was \$167,182 compared to \$116,425 for the quarter ended March 31, 1998. The increase was attributable to interest expenses arising from the acquisitions of additional Company owned real estates.

Net income for the quarter ended March 31, 1999 was \$409,753 compared to a loss of \$200,236 for the quarter ended March 31, 1998. The increase was due to positive income from operations, gain on sale of the Company's subsidiary, and gain on fire damage. Management currently believes that the Company is in the position to be profitable in fiscal 1999.

For the six months ended March 31, 1999, the Company had consolidated total revenues of \$6,414,452 compared to consolidated total revenues of \$3,676,408 for the fiscal six months ended March 31, 1998, or an increase of \$2,738,044. The increase in revenues was due to increased number of the Company's locations.

The cost of goods sold for the six months ended March 31, 1999 was 13.89% of total revenues compared to 14.27% for the six months ended March 31, 1998. The decrease was due primarily to the continuing efforts of management to achieve reductions in cost of goods sold through improved inventory management. The Company continues a program to improve margins from liquor and food sales and food service efficiency.

Payroll and related costs for the six months ended March 31, 1999 were \$1,970,589 compared to \$1,020,242 for the six months ended March 31, 1998. The increase was a reflection of the additional personnel experienced by the company as it adds more locations. Management currently believes that its labor and management staff levels are of appropriate levels.

Other selling, general and administrative expenses for the six months ended March 31, 1999 were \$2,935,364 compared to \$2,140,354 for the six months ended March 31, 1998. The increase was due to increased number of the Company's locations.

Interest expense for the six months ended March 31, 1999 was \$310,426 compared to \$160,582 for the six months ended March 31, 1998. The increase was attributable to interest expenses arising from the acquisitions of additional Company owned real estate.

Net income for the six months ended March 31, 1999 was \$692,827 compared to a loss of \$164,683 for the six months ended March 31, 1998. The increase was due to positive income from operations, gain on sale of the Company's subsidiary, and gain on fire damage. Management currently believes that the Company is in the position to be profitable in fiscal 1999.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1999, the Company had working capital of \$1,118,681 compared to negative working capital of \$ 887,833 at September 30, 1998. The increase in working capital was due to the proceeds received from the sale of the Company's subsidiary.

Net cash used by operating activities in the six months ended March 31, 1999 was \$536,224 compared to net cash provided of \$324,651 for the six months ended March 31, 1998. The decrease in cash provided by operating activities was due to an increase in accounts receivable and a decrease in accounts payable.

Depreciation and Amortization for the six months ended March 31, 1999 were \$236,013 compared to \$164,184 for the six months ended March 31, 1998.

In the opinion of management, working capital is not a true indicator of the financial status. Typically, the Company carries current liabilities in excess of current assets because the business receives substantially immediate payment for sales, with nominal receivables, while inventories and other current liabilities normally carry longer payment terms. Vendors and purveyors often remain flexible with payment terms providing the Company with opportunities to adjust to short term business down turns. The Company considers the primary indicators of financial status to be the long term trend and mix of sales revenues, overall cash flow and profitability from operations and the level of long term debt.

SEASONALITY

The Company is significantly affected by seasonal factors. Typically, the Company has experienced reduced revenues from April through September with the strongest operating results occurring during October through March.

SPECIAL NOTE REGARDING FORWARD LOOKING INFORMATION

The Company is including the following cautionary statement in this Quarterly Report on Form 10 QSB 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, and the availability of acceptable financing to fund corporate expansion efforts.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On April 20, 1999 the Company was served as a defendant in litigation that was filed on February 23, 1999. The lawsuit is styled John M. Skora and Robert Martin v. Trumps, Inc., Rick=s Cabaret International, Inc., RCI Entertainment (Texas), Inc., and Robert L. Watters, Cause No. 1999-09394, in the 11th Judicial District Court of Harris County, Texas. The plaintiffs claim that they purchased a dance from one of the dancers at the Company=s club and paid for the dance by the use of their credit card. The plaintiffs claim that the Company charges \$25 for a dance when using a credit card and \$20 for a dance when using cash. Therefore, the plaintiffs assert that the Company violated the Texas Finance Code by imposing a surcharge for credit card use. The plaintiffs are seeking reimbursement for all alleged surcharges, plus statutory penalties and interest as allowed by law, attorney=s fees and all other damages, in law or in equity, which plaintiffs and other class members similarly situated are entitled. The Company intends to file an answer denying all allegations contained in the complaint and intends to vigorously defend itself in this matter.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Financial Data Schedule -- Exhibit 27.1

(b) Reports on Form 8-K

On February 24, 1999, the Company filed a Report on Form 8-K dated February 22, 1999 reporting Other Events.

On March 4, 1999, the Company filed a Report on Form 8-K dated March 2, 1999 reporting Other Events.

On April 6, 1999, the Company filed a Report on Form 8-K dated March 29, 1999 reporting a Change in Control, the Acquisition or Disposition of Assets, Other Events, and Financial Statements and Exhibits.

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 17, 1999
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By: /s/ Eric Langan

Eric Langan, President

ARTICLE 5

MULTIPLIER: 1

PERIOD TYPE	3 MOS
FISCAL YEAR END	SEP 30 1999
PERIOD START	JAN 01 1999
PERIOD END	MAR 31 1999
CASH	1195984
SECURITIES	0
RECEIVABLES	669294
ALLOWANCES	0
INVENTORY	94543
CURRENT ASSETS	2719126
PP&E	8666960
DEPRECIATION	1197491
TOTAL ASSETS	13301453
CURRENT LIABILITIES	1600445
BONDS	4857208
COMMON	32737
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	7258559
TOTAL LIABILITY AND EQUITY	13301453
SALES	3096483
TOTAL REVENUES	3096483
CGS	402846
TOTAL COSTS	2904496
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	167182
INCOME PRETAX	153161
INCOME TAX	0
INCOME CONTINUING	24950
DISCONTINUED	128211
EXTRAORDINARY	256592
CHANGES	0
NET INCOME	409753
EPS PRIMARY	.13
EPS DILUTED	.13

End of Filing

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