

RICKS CABARET INTERNATIONAL INC

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 8/16/1999 For Period Ending 6/30/1999

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: June 30, 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	76-0037324
(State or other jurisdiction of incorporation or organization)	(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 Corporate Issuers

On July 30, 1999, there were 3,547,992 shares of common stock, \$.01 par value, outstanding.

Transitional Small Business Disclosure Format: Yes ☐ No ☒

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS		
	6/30/99 (UNAUDITED)	9/30/98 (AUDITED)
CURRENT ASSETS		
CASH	\$ 613,328	\$ 597,644
ACCOUNTS RECEIVABLE	309,873	58,023
PREPAID EXPENSES	136,071	34,876
INVENTORIES	82,415	94,633
LAND HELD FOR SALE	569,069	569,069
	-----	-----
TOTAL CURRENT ASSETS	1,710,756	1,354,245
	-----	-----
PROPERTY AND EQUIPMENT		
BUILDINGS, LANDS AND LEASEHOLD IMPROVEMENTS	7,788,435	9,851,798
FURNITURE & EQUIPMENT	1,380,325	1,609,031
	-----	-----
	9,168,760	11,460,829
ACCUMULATED DEPRECIATION	(1,266,959)	(1,213,557)
	-----	-----
	7,901,801	10,247,272
	-----	-----
OTHER ASSETS		
GOODWILL LESS ACCUMULATED AMORTIZATION	3,014,716	3,154,804
OTHER	294,886	112,025
	-----	-----
	3,309,602	3,266,829
	-----	-----
	\$12,922,159	\$14,868,346
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
CURRENT PORTION OF LONG TERM DEBT	\$ 366,598	\$ 718,636
ACCOUNTS PAYABLE - TRADE	401,682	1,179,410
ACCRUED EXPENSES	120,064	344,032
	-----	-----
TOTAL CURRENT LIABILITIES	888,344	2,242,078
LONG TERM DEBT, LESS CURRENT PORTION		
LONG-TERM DEBT LESS CURRENT PORTION	4,384,283	6,015,903
	-----	-----
TOTAL LIABILITIES	5,272,627	8,257,981
	-----	-----
COMMITMENTS AND CONTINGENCIES	---	---
MINORITY INTERESTS	15,904	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 3,591,227 AND 3,233,677	35,912	32,337
ADDITIONAL PAID IN CAPITAL	9,537,326	8,973,714

RETAINED EARNINGS (DEFICIT)	(1,939,610)	(2,407,582)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	7,633,628	6,598,469
	-----	-----
	\$12,922,159	\$14,868,346
	=====	=====

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE NINE MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
REVENUES				
SALES	\$2,025,907	\$2,097,954	\$8,440,359	\$5,774,362
	-----	-----	-----	-----
OPERATING EXPENSES				
COST OF GOODS SOLD	274,966	281,520	1,165,671	806,047
SALARIES AND WAGES	785,678	727,953	2,756,267	1,748,195
OTHER GENERAL AND ADMINISTRATIVE				
TAXES AND PERMITS	330,446	164,179	1,122,497	531,159
CHARGE CARD FEES	30,763	24,122	123,252	96,163
RENT	14,785	145,551	282,819	437,692
LEGAL AND ACCOUNTING	110,798	59,205	438,595	169,844
ADVERTISING	127,320	197,052	437,974	558,682
PREOPENING COSTS	---	17,634	---	205,625
OTHER	474,919	498,005	1,619,257	1,246,937
	-----	-----	-----	-----
	2,149,674	2,115,221	7,946,332	5,800,344
	-----	-----	-----	-----
INCOME/(LOSS) FROM OPERATION	(123,766)	(17,267)	494,027	(25,982)
INTEREST EXPENSE	(111,295)	(92,217)	(421,721)	(252,799)
INTEREST INCOME	10,207	740	10,863	5,354
LOSS ON TERMINATION OF LEASE	---	---	(219,780)	---
GAIN ON SALE OF SUBSIDIARY	---	---	347,991	---
	-----	-----	-----	-----
NET INCOME/(LOSS) BEFORE EXTRAORDINARY ITEM	(224,855)	(108,744)	211,380	(273,427)
EXTRAORDINARY ITEM				
GAIN ON FIRE DAMAGE	---	---	256,592	---
	-----	-----	-----	-----
NET INCOME/(LOSS)	\$ (224,855)	\$ (108,744)	\$ 467,972	\$ (273,427)
	=====	=====	=====	=====
BASIC NET LOSS PER COMMON SHARE:				
INCOME BEFORE EXTRAORDINARY ITEM	\$ (0.07)	\$ (0.05)	\$ 0.06	\$ (0.13)
EXTRAORDINARY ITEM	0.00	0.00	0.08	0.00
	-----	-----	-----	-----
	\$ (0.07)	\$ (0.05)	\$ 0.14	\$ (0.13)
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	3,391,227	2,192,930	3,306,219	2,128,590
	=====	=====	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JUNE 30, 1999 AND 1998

	1999 (UNAUDITED)	1998 (UNAUDITED)
NET INCOME	\$ 467,972	\$ (273,427)
ADJUSTMENTS TO RECONCILE NET		
LOSS TO NET CASH PROVIDED (USED)		
BY OPERATING ACTIVITIES:		
DEPRECIATION	344,345	310,219
LOSS ON SALE OF LAND	---	42,910
GAIN ON FIRE DAMAGE AND DISPOSAL OF ASSETS	(247,865)	---
LOSS ON TERMINATION OF LEASE	219,780	---
GAIN ON SALE OF SUBSIDIARY	(347,991)	---
MINORITY INTEREST	4,008	---
CHANGES IN ASSETS AND LIABILITIES:		
ACCOUNTS RECEIVABLE	(251,850)	(99,769)
PREPAID EXPENSES	(101,195)	16,189
INVENTORIES	12,218	(15,074)
LAND HELD FOR SALE	---	---
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	(1,001,696)	109,575
	-----	-----
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(902,274)	90,623
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
CHANGE IN OTHER ASSETS	(182,861)	18,502
ADDITIONS TO PROPERTY AND EQUIPMENT	955,506	(1,478,555)
INCREASE IN GOODWILL	---	(2,147,000)
PROCEEDS FROM INSURANCE ON FIRE DAMAGE	504,457	---
PROCEEDS FROM SALE OF SUBSIDIARY	1,057,327	---
PROCEEDS FROM SALE OF LAND	---	772,742
	-----	-----
CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,334,429	(2,834,311)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
COMMON STOCK ISSUED, LESS OFFERING COSTS	567,187	634,890
INCREASE IN LONG TERM DEBT	---	2,700,000
PAYMENTS ON LONG TERM DEBT	(1,983,658)	(542,640)
	-----	-----
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,416,471)	2,792,250
	-----	-----
NET (DECREASE) IN CASH	15,684	48,562
CASH AT BEGINNING OF PERIOD	597,644	357,410
	-----	-----
CASH AT END OF PERIOD	\$ 613,328	\$ 405,972
	=====	=====
CASH PAID DURING PERIOD FOR:		
INTEREST	\$ 278,477	\$ 92,217
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 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 nine months ended June 30, 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 subsidiaries known as Lucky's located in New Orleans, Louisiana. The transaction resulted in a Loss Company's 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.

Information Regarding and Factors Affecting Forward Looking Statements

The Company is including the following cautionary statement in this 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. 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. Certain statements contained in this Report on Form 10-QSB are forward-looking statements and the matters discussed in these forward-looking statements are subject to risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The Company's forward-looking statements are expressed in good faith and are believed by the Company to have a reasonable basis based on 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 any matter discussed in a forward-looking statement will ultimately be achieved, or if achieved, will have the same impact on the Company as discussed in the forward-looking statement. In addition to those factors already mentioned, other factors which could effect forward-looking statements are: the impact and implementation of the sexually oriented business ordinance in the City of Houston; the execution of the Company's Internet e-commerce strategy, and the availability of acceptable financing to fund corporate expansion efforts. The Company has no obligation to update or revise any forward-looking statements to reflect future events.

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. The Company closed and re-deployed one of its assets, the location of the former discotheque, Tantra, to serve as its Internet e-commerce media production studio. 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 the Internet e-commerce media production facility, in Houston, Texas, the Rick's location in north Houston, Texas located near George Bush Intercontinental Airport, the XTC Cabaret location in Austin, Texas, and the Rick's location in Minneapolis, Minnesota. The Company presently has under construction an XTC location in San Antonio, Texas. Revenues are derived from the sale of liquor, beer, wine and food, as well as from dancer performances, cover charges and other income. The Company anticipates that Internet e-commerce will provide revenues in the future.

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 the XTC Cabaret facility in San Antonio, Texas and to operate an Internet e-commerce adult website and Internet media production studio.

With the starting of construction on dancerdorm.com, the Company is also investigating several adult internet companies as acquisition candidates. The Company anticipates revenues from its e-commerce site to begin in the 1st quarter of fiscal 2000.

On August 12, 1999, the Company had the grand opening of XTC Cabaret in San Antonio, Texas. The increase in revenues from this new location is expected to outweigh its related overhead costs.

Results of Operations

The Three Months Ended June 30, 1999 Compared to the Three Months Ended June 30, 1998

For the three months ended June 30, 1999, the Company had consolidated total revenues of \$ 2,025,907 compared to consolidated total revenues of \$ 2,097,954 for the three months ended June 30, 1998, or a decrease of \$ 72,047. The decrease in total revenues was due to the sale of the New Orleans location in March, 1999.

The cost of goods sold for the three months ended June 30, 1999 was 13 % of

total revenues compared to 13 % for the three months ended June 30, 1998.

Payroll and related costs for the three months ended June 30, 1999 were \$ 785,678 compared to \$ 727,953 for the three months ended June 30, 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 three months ended June 30, 1999 were \$ 1,089,030 compared to \$ 1,105,748 for the three months ended June 30, 1998. The decrease was primarily due to the decrease in advertising, rent and other general and administrative costs.

Interest expense for the three months ended June 30, 1999 was \$ 111,295 compared to \$ 92,217 for the three months ended June 30, 1998. The increase was attributable to interest expenses arising from the acquisitions of additional Company owned real estate.

Net loss for the three months ended June 30, 1999 was \$ 224,855 compared to a net loss of \$ 108,744 for the three months ended June 30, 1998. The increase in loss was due to the decrease in revenue from the sale of the New Orleans location, increase in legal and accounting costs associated with such sale, costs associated with the Company entering e-commerce business, and losses associated with the seasonality at the Company's Minneapolis location. Management believes that it has taken steps to minimize these losses for the next quarter. Management currently believes that the Company is in the position to be profitable for fiscal 1999.

The Nine Months Ended June 30, 1999 Compared to the Nine Months Ended June 30, 1998

For the nine months ended June 30, 1999, the Company had consolidated total revenues of \$ 8,440,359 compared to consolidated total revenues of \$ 5,774,362 for the nine months ended June 30, 1998, or an increase of \$ 2,665,997. The increase in total revenues was due to increased number of Company's locations.

The cost of goods sold for the nine months ended June 30, 1999 was 14 % of total revenues compared to 14 % for the nine months ended June 30, 1998.

Payroll and related costs for the nine months ended June 30, 1999 were \$ 2,756,267 compared to \$ 1,748,195 for the nine months ended June 30, 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 nine months ended June 30, 1999 were \$ 4,024,394 compared to \$ 3,246,102 for the nine months ended June 30, 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 nine months ended June 30, 1999 was \$ 421,721 compared to \$ 252,799 for the nine months ended June 30, 1998. The increase was attributable to interest expenses arising from the acquisitions of additional Company owned real estate.

Net income for the nine months ended June 30, 1999 was \$ 467,972 compared to a net loss of \$ 273,427 for the nine months ended June 30, 1998. The increase was due to positive income from operations, gain on sale of the Company's subsidiary, and an extraordinary gain on fire damage.

Liquidity and Capital Resources

At June 30, 1999, the Company had working capital of \$ 822,412 compared to negative working capital of \$ 887,833 at September 30, 1998. The increase in working capital was due to the proceeds received from insurance company on fire damage, the issuance of stocks, and the proceeds received from the sale of the Company's subsidiary.

Net cash used by operating activities in the nine months ended June 30, 1999 was \$ 902,274 compared to net cash provided of \$ 90,623 for the nine months ended June 30, 1998. The decrease in cash provided by operating activities was due to a decrease in accounts payable and accrued expenses.

Depreciation and Amortization for the nine months ended June 30, 1999 were \$ 344,345 compared to \$ 310,219 for the nine months ended June 30, 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 conditions. The Company considers the primary indicators of financial status to be the long term trend, the mix of sales revenues, overall cash flow, 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.

PART II

OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

During the quarter ended June 30, 1999, the following transactions were effected by the Company in reliance upon exemptions from registration under the Securities Act of 1933 as amended (the "Act") as provided in Section 4(2) thereof. Each certificate issued for unregistered securities contained a legend stating that the securities have not been registered under the Act and setting forth the restrictions on the transferability and the sale of the securities. No underwriter participated in, nor did the Company pay any commissions or fees to any underwriter in connection with any of these transactions. None of the transactions involved a public offering.

In June, 1999, the Company issued 250,000 of common stock to a total of four persons for cash consideration of \$2.00 per share, totaling \$500,000 in cash. These persons were accredited investors. The Company believes that each person had knowledge and experience in financial and business matters which allowed them to evaluate the merits and risk of the purchase of these securities of the Company, and that they were knowledgeable about the Company's operations and financial condition.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Financial Data Schedule -- Exhibit 27.1

(b) Reports on Form 8-K

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

On May 28, 1999, the Company filed a Report on Form 8-K Amendment No. 1 dated March 29, 1999 reporting Financial Statements.

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.

August 16, 1999

By: /s/ Eric Langan

Eric Langan

Director, President

and Chief Financial Officer

ARTICLE 5

MULTIPLIER: 1

PERIOD TYPE	3 MOS
FISCAL YEAR END	SEP 30 1999
PERIOD START	APR 01 1999
PERIOD END	JUN 30 1999
CASH	613328
SECURITIES	0
RECEIVABLES	309873
ALLOWANCES	0
INVENTORY	82415
CURRENT ASSETS	1710756
PP&E	9168760
DEPRECIATION	1266959
TOTAL ASSETS	12922159
CURRENT LIABILITIES	888344
BONDS	4750881
COMMON	35912
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	7597716
TOTAL LIABILITY AND EQUITY	12922159
SALES	2025907
TOTAL REVENUES	2025907
CGS	274966
TOTAL COSTS	2149674
OTHER EXPENSES	111295
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	(224855)
INCOME TAX	0
INCOME CONTINUING	(224855)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(224855)
EPS BASIC	(.07)
EPS DILUTED	(.07)

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