

RICKS CABARET INTERNATIONAL INC

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 2/16/1999 For Period Ending 12/31/1998

Address	505 NORTH BELT SUITE 630 HOUSTON, Texas 77060
Telephone	281-820-1181
CIK	0000935419
Industry	Restaurants
Sector	Services
Fiscal Year	09/30

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549 **FORM 10-QSB**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934; For the Quarterly Period Ended: December 31, 1998**

☐ **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 CORPORATE ISSUERS

On February 11, 1999, there were approximately 6,547,453 shares of common stock, \$.01 par value, outstanding.

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

RICK'S CABARET INTERNATIONAL, INC.

CONTENTS

Page

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets as of December 31, 1998 (unaudited) and September 30, 1998

Consolidated Statements of Operations for the three months ended December 31, 1998 and 1997 (unaudited)

Consolidated Statements of Cash Flows for the three months ended December 31, 1998 and 1997 (unaudited)

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

PART II - OTHER INFORMATION

Item 2. Changes in Securities

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

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

ASSETS

	12/31/98	9/30/98
	(UNAUDITED)	(AUDITED)
CURRENT ASSETS		
Cash	\$ 512,220	\$ 597,644
Accounts receivable	110,252	58,023
Prepaid expenses	208,009	34,876
Inventories	96,174	94,633
Land held for sale	569,069	569,069
	-----	-----
Total current assets	1,495,724	1,354,245
	-----	-----
PROPERTY AND EQUIPMENT		
Buildings, lands and leasehold improvements	10,424,163	9,851,789
Furniture and equipment	1,367,147	1,609,031
	-----	-----
	11,791,310	11,460,820
Accumulated depreciation	(1,308,266)	(1,213,558)
	-----	-----
	10,483,044	10,247,262
	-----	-----
OTHER ASSETS		
Goodwill less accumulated amortization	3,092,444	3,154,804
Other	124,971	112,025
	-----	-----
	3,217,415	3,266,829
	-----	-----
	\$15,196,183	\$14,868,336
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long term debt	\$ 713,811	\$ 718,636
Accounts payable - trade	1,492,990	1,179,410
Accrued expenses	422,966	344,032
	-----	-----
Total current liabilities	2,629,767	2,242,078
LONG TERM DEBT, LESS CURRENT PORTION		
Long-term debts less current portion	5,680,173	6,015,903
	-----	-----
Total Liabilities	8,309,940	8,257,981
	-----	-----
COMMITMENTS AND CONTINGENCIES		
MINORITY INTERESTS	4,700	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 6,547,453 and 6,467,353	65,475	64,673
Additional paid in capital	8,940,576	8,941,378
Retained earnings (deficit)	(2,124,508)	(2,407,582)
	-----	-----
Total stockholder's equity	6,881,543	6,598,469
	-----	-----
	\$15,196,183	\$14,868,346
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31, 1998 AND 1997

	1998 (UNAUDITED)	1997 (UNAUDITED)
REVENUES		
Sales of alcoholic beverages	\$ 1,390,370	\$ 856,274
Sales of food	149,532	101,217
Service revenues	1,344,725	345,917
Other	433,342	365,018
	-----	-----
	3,317,969	1,668,426
	-----	-----
OPERATING EXPENSES		
Cost of goods sold	487,859	213,182
Salaries and wages	1,004,943	448,644
Other general and administrative		
Taxes and permits	288,696	183,354
Charge card fees	57,507	31,133
Rent	135,155	150,722
Legal and accounting	142,108	54,842
Advertising	198,423	206,910
Other	577,471	299,929
	-----	-----
	2,892,162	1,588,716
	-----	-----
INCOME (LOSS) FROM OPERATIONS	425,807	79,710
Interest income	511	0
Interest Expense	(143,244)	(44,157)
Net Income	\$ 283,074	\$ 35,553
	=====	=====
NET INCOME (LOSS) PER COMMON SHARE	\$ 0.04	\$ 0.00
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	6,507,403	4,174,830
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED DECEMBER 31, 1998 AND 1997

	1998 (UNAUDITED)	1997 (UNAUDITED)
NET INCOME (LOSS)	\$ 283,074	\$ 35,553
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH (USED)		
BY OPERATING ACTIVITIES:		
Depreciation	94,708	66,650
Amortization of goodwill	62,360	-
Minority interests	(7,186)	-
Changes in assets and liabilities:		
Accounts receivable	(52,229)	(24,083)
Prepaid expenses	(173,133)	(37,869)
Inventories	(1,541)	(8,122)
Land held for sale		815,652
Accounts payable and accrued expenses	392,514	(209,703)
Income tax payable/receivable		(5,572)
	-----	-----
Cash provided (used) by operating expenses	598,567	632,506
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property equipment	(330,490)	(1,925,488)
Increase in other assets	(12,946)	(1,221,053)
	-----	-----
Cash used by investing activities	(343,436)	(3,146,541)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued, less offering costs		103,000
Increase in long term debt	(96,703)	2,342,043
Payments on long term debt	(243,852)	(22,800)
	-----	-----
Cash provided (used) by financing activities	(340,555)	2,422,243
	-----	-----
NET (DECREASE) IN CASH	(85,424)	(91,792)
CASH AT BEGINNING OF PERIOD	597,644	357,410
	-----	-----
CASH AT END OF PERIOD	\$ 512,220	\$ 265,618
	=====	=====
CASH PAID DURING PERIOD FOR:		
Interest	143,244	44,157

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 New Orleans, Louisiana 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 Minneapolis, Minnesota and the location in north Houston, Texas located near George Bush Intercontinental Airport, which opened in December, 1998. The Company leases its New Orleans facility.

Revenues are derived from the sale of liquor, beer, wine and food, as well as from dancer performances, cover charges and other income.

Results of Operations

Three months ended December 31, 1998 as compared to the three months ended December 31, 1997.

For the quarter ended December 31, 1998, the Company had consolidated total revenues of \$3,317,969 an increase of \$ 1,649,543 from the fiscal quarter ended December 31, 1997 of \$1,668,426.

The increase in revenues compared to the first quarter ended December 31, 1997 is due to increased sales at a number of the company's locations. The company's newest location near George Bush Intercontinental Airport opened in mid-December, 1998.

Cost of goods sold were 31.7% and 22.2% of sales of alcoholic beverages and food for the first quarters of fiscal 1999 and 1998, respectively. The increase in fiscal 1999 is due primarily to start-up complimentary expenses at the new location in North Houston as well as higher than usual complimentary expenses during the holiday season.

Payroll and related costs were \$1,004,943 for the first quarter in 1999 compared to \$448,644 for the same fiscal period in 1998. The increase is 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 increased 44% from the first quarter of fiscal 1998 to the first quarter of fiscal 1999. The increase was due primarily to additional administrative costs incurred due to the expanded operations of the company.

Interest expense in the first quarter of fiscal 1999 was \$143,244.

Net income for the first quarter of fiscal 1999 was \$283,074 compared to income of \$35,553 for the first quarter of fiscal 1998.

Liquidity and Capital Resources

At December 31, 1998 the Company has negative working capital of \$(1,134,043) compared to negative working capital \$(887,833) at September 30, 1998. The decrease in working capital is due primarily to the expenditure of cash resources in building and opening the company's newest location in North Houston, which opened in mid-December, 1998.

Net cash provided by operating activities in the first quarter of fiscal 1999 was \$598,567 compared to \$632,506 for the same period in fiscal 1998. The decrease in cash provided by operating activities was due primarily to the sale of land in the FY 1998 quarter which provided cash of \$815,162.

Net cash used in investing activities was \$(343,436) which resulted from additions to property and equipment.

The Company's new location in North Houston opened in December, 1998. The Minneapolis, Minnesota location opened in March, 1998 and the increase in revenues arose primarily from the sales for these new locations as well as increased sales at the company's location in New Orleans. In August, 1998, the Company acquired Taurus Entertainment Companies, Inc. The Company continues to study potential acquisition candidates which would contribute to overall revenue growth and profitability.

The slight increase in cost of goods sold is believed to be a seasonal variation. Management is continuing to develop programs to control cost of goods sold. The Company continues to aggressively decrease costs throughout all of its locations by improving menu offerings, reducing food inventory stocks and spoilage, and by modifying buying procedures.

Depreciation and Amortization was \$157,068 for the quarter ended 12/31/98 compared to \$66,650 for the comparable quarter in the prior fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

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.

During the three months ended December 31, 1998, the Company provided \$598,567 cash from operations. Amortization and depreciation expense recorded during the period ended December 31, 1998 was \$157,068. Management believes that the cash provided by operation is a positive trend indicating the impact which an additional locations can have on overall overhead coverage and operating results

The Company continually reviews potential acquisition candidates for suitability.

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, the recent opening of the club in Minneapolis, Minnesota and the availability of acceptable financing to fund corporate expansion efforts.

PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K II-2

Exhibit 27.1 Financial Data Schedule

Reports on Form 8-K

The Company filed a report on Form 8-K Amendment No. 1 on October 21, 1998 reporting Item 7 financial statements for a previous acquisition.

The Company filed a report on Form 8-K on December 21, 1998 reporting Item 5 Other Events.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RICK'S CABARET INTERNATIONAL, INC.

Date: February 12, 1999

By: /s/ Robert L. Watters

*Robert L. Watters, President
and Chief Accounting Officer*

ARTICLE 5

MULTIPLIER: 1

PERIOD TYPE	3 MOS
FISCAL YEAR END	SEP 30 1999
PERIOD START	OCT 01 1998
PERIOD END	DEC 30 1998
CASH	512220
SECURITIES	0
RECEIVABLES	110252
ALLOWANCES	0
INVENTORY	96174
CURRENT ASSETS	1495724
PP&E	11791310
DEPRECIATION	(1308266)
TOTAL ASSETS	15196183
CURRENT LIABILITIES	2629767
BONDS	6393984
COMMON	65475
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	6816068
TOTAL LIABILITY AND EQUITY	15196183
SALES	3317969
TOTAL REVENUES	3317969
CGS	487859
TOTAL COSTS	2892162
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	143244
INCOME PRETAX	283074
INCOME TAX	0
INCOME CONTINUING	283074
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	283074
EPS PRIMARY	.04
EPS DILUTED	.04

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