

RICKS CABARET INTERNATIONAL INC

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 8/13/2001 For Period Ending 6/30/2001

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

**UNITED STATES 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, 2001

☐ 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)

76-0458229
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 August 7, 2001, there were 4,595,494 shares of common stock, \$.01 par value, outstanding.

Transitional Small Business Disclosure Format (check one): 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 -----	
	6/30/2001 (UNAUDITED)	9/30/2000 (AUDITED)
CURRENT ASSETS		
Cash	\$ 600,979	\$ 374,532
Accounts receivable	379,795	297,761
Prepaid expenses	173,399	67,661
Inventories	208,445	200,471
Land held for sale	200,000	200,000
	-----	-----
Total current assets	1,562,618	1,140,425
	-----	-----
PROPERTY AND EQUIPMENT		
Buildings, land and leasehold improvements	8,483,918	8,360,090
Furniture & equipment	1,842,803	1,508,990
	-----	-----
	10,326,721	9,869,080
Accumulated depreciation	(1,603,586)	(1,296,898)
	-----	-----
	8,723,135	8,572,182
	-----	-----
OTHER ASSETS		
Goodwill less accumulated amortization	3,670,287	3,412,827
Other	207,221	288,223
	-----	-----
	3,877,508	3,701,050
	-----	-----
	\$ 14,163,261	\$13,413,657
	=====	=====

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	6/30/2001 (UNAUDITED)	9/30/2000 (AUDITED)
CURRENT LIABILITIES		
Current portion of long term debt	\$ 342,165	\$ 456,749
Accounts payable - trade	292,171	437,083
Accrued expenses	466,036	380,279
	-----	-----
Total current liabilities	1,100,372	1,274,111
LONG TERM DEBT, LESS CURRENT PORTION		
Long-term debt less current portion	3,327,719	3,409,767
	-----	-----
Total Liabilities	4,428,091	4,683,878
	-----	-----
COMMITMENTS AND CONTINGENCIES	---	---
MINORITY INTERESTS	76,205	64,410
STOCKHOLDERS' EQUITY		
Preferred stock - \$.10 par, authorized 1,000,000 shares; none outstanding	---	---
Common stock - \$.01 par, authorized 15,000,000 shares issued 4,348,678 shares	43,487	43,487
Additional paid in capital	10,891,794	10,867,449
Treasury stock	(42,369)	0
Retained earnings (deficit)	(1,233,947)	(2,245,567)
	-----	-----
Total stockholders' equity	9,658,965	8,665,369
	-----	-----
	\$ 14,163,261	\$13,413,657
	=====	=====

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE NINE MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
REVENUES				
Sales of alcoholic beverages	\$ 1,511,870	\$ 1,208,668	\$ 4,310,031	\$ 3,443,175
Sales of foods	208,233	171,994	612,569	485,400
Service revenues	1,309,466	1,215,886	3,943,619	3,657,122
Internet revenues	1,807,618	246,525	5,944,034	429,656
Others	280,819	223,155	757,437	610,565
	5,118,006	3,066,228	15,567,690	8,625,918
OPERATING EXPENSES				
Cost of goods sold	1,455,351	439,399	5,629,246	1,270,857
Salaries and wages	1,200,244	1,109,908	3,615,197	3,008,121
Other general and administrative				
Taxes and permits	510,170	443,625	1,432,316	1,284,282
Charge card fees	71,064	49,680	240,228	128,726
Rent	51,167	41,534	206,574	68,259
Legal and accounting	186,857	209,524	582,727	495,578
Advertising	129,434	204,971	393,571	613,113
Other	830,515	604,716	2,210,948	1,626,188
	4,434,802	3,103,357	14,310,807	8,495,124
INCOME/(LOSS) FROM OPERATIONS	683,204	(37,129)	1,256,883	130,794
Interest Expense	(87,818)	(102,811)	(268,936)	(316,322)
Interest Income	7,101	6,311	23,673	22,646
Other Income		206,707		206,707
NET INCOME/(LOSS)	\$ 602,487	\$ 73,078	\$ 1,011,620	\$ 43,825
BASIC NET INCOME (LOSS) PER COMMON SHARE:				
NET INCOME (LOSS)	\$ 0.14	\$ 0.02	\$ 0.23	\$ 0.01
WEIGHTED AVERAGE SHARES OUTSTANDING	4,348,678	3,710,178	4,348,678	3,669,234

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED JUNE 30, 2001 AND 2000

	2001 (UNAUDITED)	2000 (UNAUDITED)
NET INCOME/(LOSS)	\$ 1,011,620	\$ 43,825
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	603,588	404,907
Minority Interest	11,795	8,175
Changes in assets and liabilities:		
Accounts receivable	(82,034)	(116,547)
Prepaid expenses	(105,738)	3,721
Inventories	(7,974)	(20,089)
Other assets	(473,358)	45,245
Accounts payable and accrued expenses	(59,155)	229,742
	-----	-----
Cash provided by operating expenses	898,744	598,979
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property equipment	(457,641)	(350,487)
	-----	-----
Cash used by investing activities	(457,641)	(350,487)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued, less offering costs	24,345	242,470
Treasury stocks acquired	(42,369)	0
Proceeds from long-term debt	194,475	0
Payments on long-term debt	(391,107)	(430,041)
	-----	-----
Cash provided (used) by financing activities	(214,656)	(187,571)
	-----	-----
NET INCREASE IN CASH	226,447	60,921
CASH AT BEGINNING OF PERIOD	374,532	378,161
	-----	-----
CASH AT END OF PERIOD	\$ 600,979	\$ 439,082
	=====	=====
CASH PAID DURING PERIOD FOR:		
Interest	\$ 268,936	\$ 213,511
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001

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, 2000 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, 2001 are not necessarily indicative of the results that may be expected for the year ending September 30, 2001.

2. SEGMENT INFORMATION

In October 1999, the Company launched its web-sites operation. This segment derives revenues from membership fees, traffic sold, and sale of feeds to other web-site operators. Below is the financial information on this segment.

	FOR THE THREE MONTHS ENDED JUNE 30, 2001		FOR THE NINE MONTHS ENDED JUNE 30, 2001	
	2001	2000	2001	2000
REVENUES				
Internet Web-sites	\$ 1,807,618	\$ 246,525	\$ 5,944,034	\$ 429,656
Club operation	3,310,388	2,819,703	9,623,656	8,196,262
	\$ 5,118,006	\$ 3,066,228	\$ 15,567,690	\$ 8,625,918
NET INCOME/(LOSS)				
Internet Web-sites	\$ 433,620	\$ (57,169)	\$ 612,952	\$ (327,562)
Club operation	390,306	284,426	1,015,681	777,892
Corporate expenses	(221,439)	(154,179)	(617,013)	(406,505)
	\$ 602,487	\$ 73,078	\$ 1,011,620	\$ 43,825
PROPERTY & EQUIPMENT				
Internet Web-sites			\$ 235,050	\$ 258,410
Clubs operation			8,488,085	8,393,252
			\$ 8,723,135	\$ 8,621,662

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 audited and unaudited consolidated financial statements and related notes thereto included in this quarterly report.

FORWARD LOOKING STATEMENT AND INFORMATION

The Company is including the following cautionary statement in this 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 in this Form 10-QSB are forward-looking statements. Words such as "expects", "anticipates" and "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. 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 limitation, 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 expectation, beliefs or projections will result, 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: the risks and uncertainties relating to our Internet operations, the impact and implementation of the sexually oriented business ordinance in the City of Houston, competitive factors, the timing of the openings of other clubs, the integration of operations of Taurus Entertainment Companies, Inc. with our operations and management, the availability of acceptable financing to fund corporate expansion efforts, competitive factors, and the dependence on key personnel. The Company has no obligation to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

GENERAL

We currently own and operate three adult Internet membership web sites at www.dancerdorm.com, www.amateurdan.com, and www.xxxpassword.com plus an auction site at www.naughtybids.com.

We also own and operate adult nightclubs under the name "Rick's Cabaret" and "XTC" which offer live adult entertainment, restaurant and bar operations. We own and operate our Internet content production studio and web site operations center, and three adult nightclubs in Houston, Texas. We also own and operate adult nightclubs in Austin and San Antonio, Texas, and Minneapolis, Minnesota.

Our revenues are derived from subscriptions to adult content internet web sites and from the sale of liquor, beer, wine and food, cover charges and other income. Our fiscal year end is September 30.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2001 AS COMPARED TO THE THREE AND NINE MONTHS ENDED JUNE 30, 2000

For the quarter ended June 30, 2001, the Company had consolidated total revenues of \$5,118,006 compared to consolidated total revenues of \$3,066,228 for the quarter ended June 30, 2000, or an increase of \$2,051,778. The increase in total revenues was due to the increase in revenues in the Company's existing and new club locations of \$490,073 and to the increase in revenues generated by the Company's Internet businesses of \$1,561,705. The increase in the revenues generated by the club operations were primarily due to increase in alcoholic beverage sales, food sales, floor fees, and merchandise revenues.

The cost of goods sold for the quarter ended June 30, 2001 was 28.44% of total revenues compared to 14.33% for the quarter ended June 30, 2000. The increase was due primarily to the costs of maintaining our Internet operations and the addition of logo merchandise to our sales mix. The cost of goods sold for the club operation for the quarter ended June 30, 2001 was 13.94% of the sales of alcoholic beverages and food compared to 13.49% for the quarter ended June 30, 2000. The increase was due primarily to the increase in food costs and the addition of logo merchandise in our sales mix. We continued our efforts to achieve reductions in cost of goods sold of the club operations through improved inventory management. We continue a program to improve margins from liquor and food sales and food service efficiency. The cost of sales from our Internet operation for the quarter ended June 30, 2001 was 54.96%.

Payroll and related costs for the quarter ended June 30, 2001 were \$1,200,244 compared to \$1,109,908 for the quarter ended June 30, 2000. The increase was a reflection of the additional personnel experienced by the Company as it adds more locations and continues to increase the size and the scope of our internet operation. Management currently believes that its labor and management staff levels are of appropriate levels.

Other selling, general and administrative expenses for the quarter ended June 30, 2001 were \$1,779,207 compared to \$1,554,050 for the quarter ended June 30, 2000. The increase was due to increased number of the Company's locations and the expansion of our Internet business.

Interest expense for the quarter ended June 30, 2001 was \$87,818 compared to \$102,811 for the quarter ended June 30, 2000. The decrease was primarily due to the Company's position in not obtaining new debts, but to aggressively reduce its debt burden.

Net income for the quarter ended June 30, 2001 was \$602,487 compared to a net income of \$73,078 for the quarter ended June 30, 2000. The increase in net income was primarily due to the increase in revenues in the Company's club locations and internet operations.

For the nine months ended June 30, 2001, the Company had consolidated total revenues of \$15,567,690 compared to consolidated total revenues of \$8,625,918 for the fiscal nine months ended June 30, 2000, or an increase of \$6,941,772. The increase in total revenues was due to the increase in revenues in the Company's existing and new club locations of \$1,427,395 and to the increase in revenues generated by the Company's Internet businesses of \$5,514,377.

The cost of goods sold for the nine months ended June 30, 2001 was 36.16% of total revenues compared to 14.74% for the nine months ended June 30, 2000. The increase was due primarily to the initial and maintenance costs of our internet operation. The cost of goods sold for the club operation for the nine months ended June 30, 2001 was 14.14%. Management continued its efforts 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 nine months ended June 30, 2001 were \$3,615,197 compared to \$3,008,121 for the nine months ended June 30, 2000. The increase was a reflection of the additional personnel experienced by the Company as it adds more locations and continues to increase the size and the scope of our internet operation. Management currently believes that its labor and management staff levels are of appropriate levels. The labor cost for the internet operation was \$324,840 and for the clubs operation was \$2,871,945. 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, 2001 were \$5,066,364 compared to \$4,216,146 for the nine months ended June 30, 2000. The increase was due to increased number of the Company's locations and the expansion of our Internet business.

Interest expense for the nine months ended June 30, 2001 was \$268,936 compared to \$316,322 for the nine months ended June 30, 2000. The decrease was primarily attributable to Company's aggressive effort to pay off its debt and not acquiring a new debt.

Net income for the nine months ended June 30, 2001 was \$1,011,620 compared to a net income before extraordinary item of \$43,825 for the nine months ended June 30, 2000. The increase in net income was primarily due to the increase in revenues in Company's club locations and internet business. Management currently believes that the Company is in the position to be profitable in fiscal 2001.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2001, the Company had working capital of \$462,246 compared to a working capital deficit of \$133,686 at September 30, 2000. The increase in working capital was due primarily to the increase in net income.

Net cash provided by operating activities in the nine months ended June 30, 2001 was \$898,744 compared to \$598,979 for the nine months ended June 30, 2000. The increase in cash provided by operating activities was due principally to the increase in net income from both club and internet operations.

Depreciation and Amortization for the nine months ended June 30, 2001 were \$603,588 compared to \$404,907 for the nine months ended June 30, 2000.

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.

We have not established lines of credit other than the existing debt. There can be no assurance that we will be able to obtain additional financing on reasonable terms, if at all.

Because of the large volume of cash we handle, stringent cash controls have been implemented. In the event the sexually oriented business industry is required in all states to convert the entertainers who perform from independent contractor to employee status, we have prepared alternative plans that we believe will protect our profitability. We believe that the industry standard of treating the entertainers as independent contractors provides sufficient safe harbor protection to preclude any payroll tax assessment for prior years.

The sexually oriented business industry is highly competitive with respect to price, service and location, as well as the professionalism of the entertainment. Although we believe that we are well-positioned to compete successfully in the future, there can be no assurance that we will be able to maintain our high level of name recognition and prestige within the marketplace.

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 4. Submission of Matters to a Vote of Security Holders

Our annual meeting of shareholders was held on June 11, 2001. A quorum was present. The following persons were elected Directors: Eric Langan, Robert Watters, Travis Reese, Alan Bergstrom, Ron Levi, Paul Lesser and Steven Jenkins. Our shareholders ratified the selection of Jackson & Rhodes, P.C. as our independent auditors for the fiscal year ending September 30, 2001.

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

(a) Exhibits

Exhibit 99.1 -- Report of Independent Auditor on Review of Unaudited Financial Statements.

(b) Reports on Form 8-K

None

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 8, 2001

By: /s/ Eric S. Langan

Eric S. Langan

President and Chief Accounting Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Rick's Cabaret International, Inc. and Subsidiaries

We have reviewed the accompanying balance sheets of Rick's Cabaret International, Inc. and Subsidiaries as of June 30, 2001, and the related statements of income for the three and nine months periods ended June 30, 2001 and 2000, and the related statements of cash flows for the nine months periods ended June 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of analytical procedures applied to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Rick's Cabaret International, Inc. and Subsidiaries as of September 30, 2000, and the related statements of earnings and cash flows for the year then ended (not presented separately herein), and in our report dated November 30, 2000, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of September 30, 2000, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Jackson & Rhodes P.C.

Dallas, Texas
August 8, 2001

End of Filing

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