

# RICKS CABARET INTERNATIONAL INC

## FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 5/20/2005 For Period Ending 3/31/2005

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Industry	Restaurants
Sector	Services
Fiscal Year	09/30

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# 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: March 31, 2005

☐ 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	76-0458229
(State or other jurisdiction of incorporation or organization)	IRS Employer Identification No.)

10959 Cutten Road  
Houston, Texas 77066  
(Address of principal executive offices, including zip code)

(281) 397-6730  
(Registrant's telephone number, including area code)

### APPLICABLE ONLY TO CORPORATE ISSUERS

On May 4, 2005, there were 3,907,148 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

	03/31/05 (UNAUDITED)	9/30/04 (AUDITED)
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,611,907	\$ 275,243
Accounts receivable		
Trade	97,539	72,909
Other, net	304,927	204,093
Marketable securities	44,491	122,350
Inventories	191,742	232,746
Prepaid expenses and other current assets	296,625	976,577
Net assets of discontinued operations	---	27,674
	-----	-----
Total current assets	2,547,231	1,911,592
	-----	-----
PROPERTY AND EQUIPMENT		
Buildings, land and leasehold improvements	10,681,587	9,394,619
Furniture and equipment	2,074,701	1,946,583
	-----	-----
	12,756,288	11,341,202
	-----	-----
Accumulated depreciation	(2,914,310)	(2,659,762)
	-----	-----
Total property and equipment, net	9,841,978	8,681,440
	-----	-----
OTHER ASSETS		
Goodwill, net	1,898,926	1,898,926
Other intangible assets, net	7,842,798	---
Other	523,249	432,658
	-----	-----
Total other assets	10,264,973	2,331,584
	-----	-----
Total assets	\$ 22,654,182	\$ 12,924,616
	=====	=====

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	03/31/05 (UNAUDITED)	9/30/04 (AUDITED)
CURRENT LIABILITIES		
Accounts payable - trade	\$ 432,821	\$ 291,650
Accrued liabilities	826,871	588,883
Current portion of long-term debt	1,034,192	492,310
	-----	-----
Total current liabilities	2,293,884	1,372,843
Deferred gain on sale of subsidiary	163,739	163,739
Long-term debt less current portion	11,523,855	3,201,250
	-----	-----
Total liabilities	13,981,478	4,737,832
	-----	-----
COMMITMENTS AND CONTINGENCIES	---	---
MINORITY INTERESTS	47,223	40,808
STOCKHOLDERS' EQUITY		
Preferred stock, \$.10 par, 1,000,000 shares authorized; none outstanding	---	---
Common stock, \$.01 par, 15,000,000 shares authorized; 4,815,678 and 4,608,678 shares issued	48,157	46,087
Additional paid-in capital	11,772,849	11,273,149
Accumulated other comprehensive income	31,143	109,002
Accumulated deficit	(1,932,888)	(1,988,482)
Less 908,530 shares of common stock held in treasury, at cost	(1,293,780)	(1,293,780)
	-----	-----
Total stockholders' equity	8,625,481	8,145,976
	-----	-----
Total liabilities and stockholders' equity	\$ 22,654,182	\$ 12,924,616
	=====	=====

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

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2005	2004 (UNAUDITED)	2005	2004 (UNAUDITED)
Continuing Operations:				
Revenues				
Sales of alcoholic beverages	\$ 1,192,768	\$ 1,539,493	\$ 2,403,044	\$ 3,059,438
Sales of food and merchandise	413,996	395,605	791,098	759,324
Service revenues	1,586,890	1,437,044	3,092,841	2,719,850
Internet revenues	180,729	202,678	367,960	403,422
Other	69,007	124,235	120,657	183,806
	-----	-----	-----	-----
Total revenues	3,443,390	3,699,055	6,775,600	7,125,840
	-----	-----	-----	-----
Operating expenses				
Cost of goods sold	448,165	441,026	845,935	874,784
Salaries and wages	1,203,595	1,227,837	2,411,544	2,384,172
Other general and administrative				
Taxes and permits	477,037	523,556	921,627	978,604
Charge card fees	55,609	57,399	115,296	118,876
Rent	105,875	84,431	177,823	158,802
Legal and professional	178,753	140,052	346,079	275,908
Advertising and marketing	215,796	200,575	357,602	370,619
Depreciation and amortization	140,453	130,493	267,242	247,352
Other	618,081	479,884	1,177,199	999,687
	-----	-----	-----	-----
Total operating expenses	3,443,364	3,285,253	6,620,347	6,408,804
	-----	-----	-----	-----
Income (loss) from continuing operations	26	413,802	(155,253)	717,036
Other income (expense):				
Interest income	11,556	9,060	20,745	14,815
Interest expense	(167,835)	(78,371)	(256,949)	(159,323)
Gain from sale of marketable securities	-	16,878	-	16,878
Minority interests	(6,877)	1,020	(6,414)	10,546
Other	46	(5,171)	(734)	(2,523)
	-----	-----	-----	-----
Net income (loss) from continuing operations	(163,084)	357,218	(88,099)	597,429
Discontinued operations:				
Income (loss) from discontinued operations	(66,825)	11,036	(148,294)	10,083
Gain on sale of discontinued operations	291,987	-	291,987	-
	-----	-----	-----	-----
Net income	\$ 62,078	\$ 368,254	\$ 55,594	\$ 607,512
	=====	=====	=====	=====
Basic and diluted earnings per share:				
Income (loss) from continuing operations	\$ (0.04)	\$ 0.10	\$ (0.02)	\$ 0.16
Income from discontinued operations	0.06	0.00	0.04	0.00
	-----	-----	-----	-----
Net income, basic	\$ 0.02	\$ 0.10	\$ 0.02	\$ 0.16
	=====	=====	=====	=====
Net income, diluted	\$ 0.02	\$ 0.10	\$ 0.01	\$ 0.16
	=====	=====	=====	=====
Weighted average number of common shares outstanding:				
Basic	3,782,481	3,700,148	3,741,315	3,700,148
	=====	=====	=====	=====
Diluted	3,964,987	3,700,148	3,923,821	3,700,148
	=====	=====	=====	=====

Comprehensive income for the six months ended March 31, 2005 and 2004 were (\$22,265) and \$644,970, respectively. This includes the changes in available-for-sale securities and net income.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED MARCH 31, 2005 AND 2004

	2005 (UNAUDITED)	2004 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 55,594	\$ 607,512
(Income) loss from discontinued operations	148,294	(10,083)
Gain on sale of discontinued operations	(291,987)	---
	-----	-----
Income (loss) from continuing operations	(88,099)	597,429
Adjustments to reconcile income (loss) from continuing operations to cash provided by operating activities:		
Depreciation and amortization	267,242	247,351
Minority interests	6,414	(10,547)
Gain on sale of marketable securities	---	(16,878)
Stocks issued for professional services	27,120	---
Changes in operating assets and liabilities	434,948	(326,462)
	-----	-----
Cash provided by operating activities	647,625	490,893
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(988,626)	(167,744)
Proceeds from sale of discontinued operations	550,000	18,186
Payments for notes receivable	(10,012)	---
Acquisition of business, net of cash acquired	(2,650,000)	(265,000)
	-----	-----
Cash used in investing activities	(3,098,638)	(414,558)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock	474,650	---
Proceeds from long-term debt	3,802,000	300,000
Payments on long-term debt	(488,973)	(320,624)
	-----	-----
Cash provided by (used in) financing activities	3,787,677	(20,624)
	-----	-----
NET INCREASE IN CASH	1,336,664	55,711
CASH AT BEGINNING OF PERIOD	275,243	563,559
	-----	-----
CASH AT END OF PERIOD	\$ 1,611,907	\$ 619,270
	=====	=====
CASH PAID DURING PERIOD FOR:		
Interest	\$ 242,151	\$ 158,298
	=====	=====

Non-cash transaction:

During the quarter ended December 31, 2004, the Company purchased a 9,000 square foot office building for \$516,499, payable with \$90,039 cash at closing and a fifteen-year promissory note, bearing interest rate at 7%, in the amount of \$426,460.

On January 18, 2005, the Company purchased a club in New York for \$7,775,000, payable with \$2,500,000 cash at closing and a five-year secured convertible promissory note, bearing interest rate at 4%, in the amount of \$5,125,000, and transaction costs of \$150,000.

On March 31, 2005, 12,000 shares of restricted common stocks were issued as compensation pursuant to a consulting agreement for a total value of \$27,120, and were issued as part of the transaction costs related to the club in New York.

# RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

### 1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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, 2004 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 and six months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending September 30, 2005.

### 2. STOCK OPTIONS

The Company accounts for its stock options under the recognition and measurement principles of Accounting Principles Board ("APB") opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standard ("SFAS") No. 123, Accounting for Stock Based Compensation, to stock-based employee compensation. The following presents pro forma net income (loss) and per share data as if a fair value accounting method had been used to account for stock-based compensation:

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2005	2004	2005	2004
Net income, as reported	\$ 62,078	\$ 368,254	\$ 55,594	\$ 607,512
Less total stock-based employee compensation expense determined under the fair value based method for all awards	(128,393)	(163,236)	(256,786)	(175,179)
Pro forma net income (loss)	\$ (66,315)	\$ 205,018	\$ (201,192)	\$ 432,333
Earnings (loss) per share:				
Basic - as reported	\$ 0.02	\$ 0.10	\$ 0.02	\$ 0.16
Diluted - as reported	\$ 0.02	\$ 0.10	\$ 0.01	\$ 0.16
Basic and diluted - proforma	\$ (0.02)	\$ 0.06	\$ (0.05)	\$ 0.12



**RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
MARCH 31, 2005

### 3. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

### 4. COMPREHENSIVE INCOME

The Company reports comprehensive income in accordance with the provisions of SFAS No. 130, Reporting Comprehensive Income. Comprehensive income consists of net income (loss) and gains (losses) on available-for-sale marketable securities.

### 5. COMMON STOCK

In January 2005 , 20,000 shares of stock option were exercised by the Company's employees and directors for \$39,625.

In March 2005, we issued 150,000 shares of common stock to an unrelated investor and received proceeds of \$375,000 and 12,000 shares of restricted common stock at a value of \$2.26 per share pursuant to a consulting agreement 25,000 shares of stock option were exercised by the Company's employees for \$60,025.

### 6. SEGMENT INFORMATION

Below is the financial information related to the Company's segments:

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2005	2004	2005	2004
REVENUES				
Club operations	\$ 3,262,661	\$ 3,496,377	\$ 6,407,640	\$ 6,722,418
Internet websites	180,729	202,678	367,960	403,422
	-----	-----	-----	-----
	\$ 3,443,390	\$ 3,699,055	\$ 6,775,600	\$ 7,125,840
	=====	=====	=====	=====
NET INCOME (LOSS)				
Club operations	\$ 317,999	\$ 738,471	\$ 947,568	\$ 1,326,180
Internet websites	27,226	22,027	58,412	25,908
Corporate expenses	(508,309)	(403,280)	(1,094,079)	(754,659)
Discontinued operations	225,162	11,036	143,693	10,083
	-----	-----	-----	-----
	\$ 62,078	\$ 368,254	\$ 55,594	\$ 607,512
	=====	=====	=====	=====

**RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
MARCH 31, 2005

**7. REVENUE RECOGNITION**

The Company recognizes revenue from the sale of alcoholic beverages, food and merchandise and services at the point-of-sale upon receipt of cash, check, or credit card charge. This includes daily, annual and lifetime VIP memberships.

Under Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, membership revenue should be deferred and recognized over the estimated membership usage period. Management estimates that the weighted average useful lives for memberships are 12 and 24 months for annual and lifetime memberships, respectively. The Company does not track membership usage by type of membership, however it believes these lives are appropriate and conservative, based on management's knowledge of its client base and membership usage at the clubs.

If the Company had deferred membership revenue and recognized it based on the lives above, the impact on revenue and net income (loss) recognized would have been an increase of approximately \$4,243 and \$17,392 for the three months and an increase of \$3,936 and \$23,749 for the six months ended March 31, 2005 and 2004, respectively. This would have also resulted in a deferred revenue balance of approximately \$2,066 and \$35,801 for the six months ended March 31, 2005 and 2004, respectively. Management does not believe the impact of this difference in accounting treatment is material to the Company's annual and quarterly financial statements. However, the Company began to record revenues in such manner effective January 1, 2004, and hence as of March 31, 2005 deferred revenues of \$22,270 have been recorded related to such memberships.

The Company recognizes Internet revenue from monthly subscriptions to its online entertainment sites when notification of a new subscription is received from the third party hosting company or from the credit card company, usually two to three days after the transaction has occurred. The Company recognizes Internet auction revenue when payment is received from the credit card company as revenues are not deemed estimable nor collection deemed probable prior to that point.

**8. LONG-TERM DEBT**

On November 15 and 17, 2004, the Company borrowed \$590,000 and \$1,042,000, respectively, from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payments of principal and interest are \$5,694 and \$10,056, respectively. On November 30, 2004, the Company borrowed \$900,000 from an unrelated individual at an 11% annual interest rate over a 10 year term. The monthly payment of principal and interest is \$9,290. On December 30, 2004, the Company borrowed \$1,270,000 from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payment of principal and interest is \$12,256. The money received from this financing will be used for the acquisition and renovation of the New York club.

**RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
MARCH 31, 2005

**9. ACQUISITIONS AND DISPOSITIONS**

On January 18, 2005, the Company completed the acquisition of Peregrine Enterprises, Inc., which operated the Paradise Club in Midtown Manhattan, New York (50 West 33rd Street). The total consideration was for \$7.775 million for the assets and stock of the former Paradise Club, which had operated on the site for more than a decade. The transaction consisted of \$2.5 million in cash and \$5.125 million in a promissory note bearing simple interest at the rate of 4.0% per annum with a balloon payment at end of five years, part of which is convertible to restricted shares of Rick's Cabaret common stock at prices ranging from \$4.00 to \$7.50 per share, and transaction costs of \$150,000. The results of operations of the club are included in our consolidated statement of operations from January 18, 2005.

The following information summarizes the initial allocation of fair values assigned to the assets and liabilities at the acquisition date based on a preliminary valuation. Subsequent adjustments may be recorded upon the completion of the valuation and the final determination of the purchase price allocation.

Current assets	\$	150,000
Discounted lease		446,486
Non-compete agreement		100,000
License		7,307,514
Current liabilities assumed		(229,000)
		-----
Net assets acquired	\$	7,775,000

The following unaudited pro forma information presents the results of operations as if the acquisition had occurred as of the beginning of the immediate preceding period. The pro forma information is not necessarily indicative of what would have occurred had the acquisitions been made as of such periods, nor is it indicative of future results of operations. The pro forma amounts give effect to appropriate adjustments for the fair value of the assets acquired, amortization of intangibles and interest expense.

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2005	2004	2005	2004
Revenues	3,443,390	4,269,769	7,261,600	8,295,041
Net Income (loss) from continuing Operations	(163,084)	123,981	(368,099)	213,984
Net income (loss)	62,078	135,017	(224,406)	224,067
Net income (loss) per share - basic and diluted	0.02	0.04	(0.06)	0.06

**RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
MARCH 31, 2005

On February 13, 2005, the Company entered into an option agreement to acquire a 30,000 square foot nightclub in Charlotte, North Carolina. The Company has begun operating the club previously known as 'The Manhattan Club' (5300 Old Pineville Road) under a management and licensing agreement. The venue has been renamed Rick's Cabaret. The option agreement, which will expire on June 1, 2005, calls for Rick's Cabaret to acquire Top Shelf LLC, for \$1,000,000 through the issuance of 180,000 shares of restricted common stock and a seven-year promissory note. The acquisition is expected to be completed within twelve weeks, after approval of licenses and authorizations required to run the business and other conditions consistent with transactions of this type. The results of operations of the club are included in the Company's consolidated statement of operations from February 1, 2005, when we assumed risk of loss for the club's operation under our management.

On March 31, 2005, the Company completed the sale of one of its clubs known as 'Rick's South' to MBG Acquisition LLC for \$550,000 cash. In connection with the sale, the Company recorded a gain of \$291,987. The club's business was accounted for as discontinued operations under accounting principles generally accepted in the United States of America and therefore, the club's results of operations and cash flows have been removed from the Company's consolidated results of continuing operations and cash flows for all periods presented in this document and such assets and liabilities as of September 30, 2004 have been netted in one line item on the balance sheet.

**Item 2. Management's Discussion and Analysis or Plan of Operations.**

The following discussion should be read in conjunction with our audited 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," "believes," "anticipates," "may," 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 ordinances in the jurisdictions where our facilities operate, competitive factors, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, 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 presently conduct our business in two different areas of operation:

1. We own and operate upscale adult nightclubs serving primarily businessmen and professionals. Our nightclubs offer live adult entertainment, restaurant and bar operations. We own and operate seven adult nightclubs under the name "Rick's Cabaret" and "XTC" in Houston, Austin and San Antonio, Texas; Minneapolis, Minnesota; and New York, New York. We also own and operate a sports bar called "Hummers" and an upscale venue that caters especially to urban professionals, businessmen and professional athletes called "Club Onyx" in Houston. No sexual contact is permitted at any of our locations. On January 18, 2005, we completed the acquisition of Peregrine Enterprises, Inc., which operated the Paradise Club in Midtown Manhattan, New York (50 West 33rd Street) and will name it 'Rick's Cabaret'. The results of operations of this new venue are included in the accompanying consolidated financial statements from the date of acquisition. Pro forma results of operations have been provided. The club is currently undergoing renovation with anticipated grand-opening in early summer. On February 15, 2005, we entered into an option agreement to acquire a 30,000 square foot nightclub in Charlotte, NC. We have begun operating the club previously known as 'The Manhattan Club' (5300 Old Pineville Road) under a management and licensing agreement as Rick's Cabaret. The results of operations of the club are included in our consolidated statement of operations from February 1, 2005, when we assumed risk of loss for the club's operations under our management. On March 31, 2005, we sold one of our clubs known as Rick's South.

2. We have extensive internet activities.

a) We currently own three adult Internet membership Web sites at [www.couplestouch.com](http://www.couplestouch.com), [www.M4Mcouples.com](http://www.M4Mcouples.com), and [www.xxxpassword.com](http://www.xxxpassword.com). We acquire [www.xxxpassword.com](http://www.xxxpassword.com) site content from wholesalers.

b) We operate an online auction site [www.naughtybids.com](http://www.naughtybids.com). This site provides our customers with the opportunity to purchase adult products and services in an auction format. We earn revenues by charging fees for each transaction conducted on the automated site.

Our nightclub revenues are derived from the sale of liquor, beer, wine, food, merchandise, cover charges, membership fees, independent contractors' fees, commissions from vending and ATM machines, valet parking, and other products and service. Our internet revenues are derived from subscriptions to adult content internet websites, traffic/referral revenues, and commissions earned on

the sale of products and services through Internet auction sites, and other activities. Our fiscal year end is September 30.

## **RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2005 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2004**

For the three months ended March 31, 2005, the Company had consolidated total revenues of \$3,443,390 compared to consolidated total revenues of \$3,699,055 for the three months ended March 31, 2004, a decrease of \$255,665 or 6.91%. The decrease in total revenues was primarily attributable to the decrease in revenues generated by the Company's club businesses in the amount of \$233,716, a 6.68% decrease from a year ago, plus a decrease of \$21,949 by the Company's internet business. The Company's club operations in Houston benefited from the Super Bowl in the previous year. Total revenues for same-location-same-period of club operations decreased to \$2,953,105 for the three months ended March 31, 2005 from \$3,311,334 for same period ended March 31, 2004, or by 10.82%.

The cost of goods sold for the three months ended March 31, 2005 was 13.02% of total revenues compared to 11.92% for the three months ended March 31, 2004. The increase was due primarily to the overall increase in alcoholic beverages prices offset by reduction in costs of maintaining our internet operations. The cost of goods sold for the club operations for the three months ended March 31, 2005 was 13.45% compared to 11.94% for the three months ended March 31, 2004. 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 goods sold from our internet operations for the three months ended March 31, 2005 was 5.21% compared to 11.56% for the three months ended March 31, 2004. The cost of goods sold for same-location-same-period of club operations for the three months ended March 31, 2005 was 13.12%, compared to 12.00% for the same period ended March 31, 2004.

Payroll and related costs for the three months ended March 31, 2005 were \$1,203,595 compared to \$1,227,837 for the three months ended March 31, 2004. Payroll for same-location-same-period of club operations decreased to \$851,017 for the three months ended March 31, 2005 from \$927,196 for the same period ended March 31, 2004. Management has implemented labor cost reduction and currently believes that its labor and management staff levels are appropriate.

Other general and administrative expenses for the three months ended March 31, 2005 were \$1,791,604 compared to \$1,616,390 for the three months ended March 31, 2004. The increase was due primarily to an increase in legal and accounting, rent, advertising and marketing, indirect operating expenses, travel and lodging, and utilities from adding two new locations in New York, New York and Charlotte, North Carolina. The total cost related to the addition of New York club for the three months ended March 31, 2005 is estimated to be \$44,300.

Interest expense for the three months ended March 31, 2005 was \$167,835 compared to \$78,371 for the three months ended March 31, 2004. The increase was attributable to the Company's obtaining new debts to finance the purchase of a club in New York. The total interest expense related to the addition of New York club for the three months ended March 31, 2005 is estimated to be \$96,100. As of March 31, 2005, the balance of long-term debts was \$12,558,047 compared to \$3,994,881 a year earlier.

Net income for the three months ended March 31, 2005 was \$62,078 compared to a net income of \$368,254 for the three months ended March 31, 2004. The decrease in net income was primarily due to the decrease in revenues in the Company's club business, increase in operating expenses due to managing two new locations in New York and North Carolina, increase in interest expenses related to the acquisition of a Club in New York, and loss due to discontinued operations, offset by a gain on the sale of discontinued operations. Net income for same-location-same-period of club operations was \$525,873 for the three months ended March 31, 2005 compared with net income of \$759,013 for same period ended March 31, 2004, a decrease of 30.72%.

#### **RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2005 AS COMPARED TO THE SIX MONTHS ENDED MARCH 31, 2004**

For the six months ended March 31, 2005, the Company had consolidated total revenues of \$6,775,600 compared to consolidated total revenues of \$7,125,840 for the six months ended March 31, 2004, a decrease of \$350,240 or 4.92%. The decrease in total revenues was primarily attributable to the decrease in overall revenues generated by the Company's club businesses in the amount of \$314,777, a decrease of 4.68%, plus a decrease of \$35,462 by the Company's internet business. The Company's club operations in Houston benefited from the Super Bowl in the previous year. Total revenues for same-location-same-period of club operations decreased to \$5,945,885 for the six months ended March 31, 2005 from \$6,398,211 for same period ended March 31, 2004, or by 7.07%. The decrease in internet revenues was due to the Company's transition from programs which generate high revenues with very low margins to programs which will produce higher margins from lower revenues.

The cost of goods sold for the six months ended March 31, 2005 was 12.48% of total revenues compared to 12.27% for the six months ended March 31, 2004. This increase is attributable to the increase in alcoholic beverages prices, offset by reduction in costs of maintaining our internet operations. The cost of goods sold for the club operations for the six months ended March 31, 2005 was 12.93% and 12.36% for the six months ended March 31, 2004. 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. The cost of goods sold from our internet operations for the six months ended March 31, 2005 was 4.68% compared to 10.82% for the six months ended March 31, 2004. The cost of goods sold for same-location-same-period of club operations for the six months ended March 31, 2005 was 13.03%, compared to 12.33% for the same period ended March 31, 2004.

Payroll and related costs for the six months ended March 31, 2005 were \$2,411,544 compared to \$2,384,172 for the six months ended March 31, 2004. This increase was the result of additional personnel required to manage the Company's new locations, offset by labor cost reduction in the Company's existing club operations. Management currently believes that its labor and management staff levels are appropriate.

Other general and administrative expenses for the six months ended March 31, 2005 were \$3,362,868 compared to \$3,149,848 for the six months ended March 31, 2004. The increase was due primarily to an increase in legal and accounting, rent, advertising and marketing, indirect operating expenses, travel and lodging, and utilities from adding two new locations in New York, New York and Charlotte,

North Carolina. The total cost related to the addition of New York club for the six months ended March 31, 2005 is estimated to be \$130,000.

Interest expense for the six months ended March 31, 2005 was \$256,949 compared to \$159,323 for the six months ended March 31, 2004. The increase was attributable to the Company obtaining additional debt to finance the purchase of a club in New York. The total interest expense related to the addition of New York club for the six months ended March 31, 2005 is estimated to be \$96,100. As of March 31, 2005, the balance of long-term debts was \$12,558,047 compared to \$3,994,881 a year earlier.

Net income for the six months ended March 31, 2005 was \$55,594 compared to net income of \$607,512 for the six months ended March 31, 2004. The decrease in net income was primarily due to the decrease in revenues in the Company's club business, increase in operating expenses due to managing two new locations in New York and North Carolina, increase in interest expenses related to the acquisition of a Club in New York, and loss due to discontinued operations, offset by a gain on the sale of discontinued operations. Net income for same-location-same-period of club operations decreased to \$1,136,087 for the six months ended March 31, 2005 from \$1,355,681 for same period ended March 31, 2004, or by 16.20%. Management currently believes that the Company is in the position to become profitable by the end of fiscal 2005, but there are no guarantees with the uncertainties of our new clubs.

## **LIQUIDITY AND CAPITAL RESOURCES**

At March 31, 2005, the Company had working capital of \$253,347 compared to working capital of \$538,749 at September 30, 2004. The decrease in working capital was primarily due to increases in accounts payable, current portion of new long-term debts, and accrued liabilities, decreases in inventory, prepaid expenses and other current assets, and marketable securities, offset by increases in cash and accounts receivable - other. The value of available-for-sale marketable securities decreased by \$77,859, primarily due to market price fluctuation.

Net cash provided by operating activities in the six months ended March 31, 2005 was \$647,625 compared to net cash provided of \$490,893 for the six months ended March 31, 2004. The increase in cash provided by operating activities was primarily due to an increase in accounts payable, and accrued liabilities and a decrease in accounts receivable - other.

The Company used \$3,098,638 and \$414,558 of cash in investing activities and provided \$3,787,677 and used \$20,624 of cash in financing activities during the six months ended March 31, 2005 and 2004, respectively.

The Company's need for capital historically was a result of construction or acquisition of new clubs, renovation of older clubs, and investments in technology. The Company also has historically utilized capital to repurchase its common stock as part of the Company's share repurchase program.

On September 16, 2003, the Company was authorized by its board of directors to repurchase up to \$500,000 worth of the Company's common stock. No shares have been purchased under this plan.

On November 15 and 17, 2004, the Company borrowed \$590,000 and \$1,042,000, respectively, from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payment of



principal and interest are \$5,694 and \$10,056, respectively. On November 30, 2004, the Company borrowed \$900,000 from an unrelated individual at an 11% annual interest rate over a 10 year term. The monthly payment of principal and interest is \$9,290. On December 30, 2004, the Company borrowed \$1,270,000 from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payment of principal and interest is \$12,256. The money received from this financing will be used for the acquisition and renovation of New York club.

The Company also entered into a promissory note on January 18, 2005, for \$5,125,000 bearing simple interest at the rate of 4.0% per annum with a balloon payment at end of five years, part of which is convertible to restricted shares of Rick's Cabaret common stock at prices ranging from \$4.00 to \$7.50 per share.

In the opinion of management, working capital is not a true indicator of the financial status. Typically, businesses in the industry carry current liabilities in excess of current assets because the business receives substantially immediate payment for sales, with nominal receivables, while accounts payable and other current liabilities normally carry longer payment terms. Vendors and purveyors often remain flexible with payment terms providing businesses 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 of revenue growth and mix of sales revenues, overall cash flow, profitability from operations and the level of long-term debt.

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

In the event the sexually oriented business industry is required in all states to convert the entertainers who perform at our locations, from being independent contractors 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 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**

Our nightclub operations are significantly affected by seasonal factors. Historically, we have experienced reduced revenues from April through September with the strongest operating results occurring during October through March. Our experience to date indicates that there does not appear to be a seasonal fluctuation in our Internet activities.

## **GROWTH STRATEGY**

The Company believes that its club operations can continue to grow organically and through careful entry into markets and demographic segments with high growth potential. Upon careful market research, we may open new clubs. As is the case with the acquisition of the New York club, we may acquire existing clubs in locations that are consistent with our growth and income targets, and which appear receptive to the upscale club formula we have developed. We may form joint ventures or partnerships to reduce start-up and operating costs, with our Company contributing assets in the form of our brand name and management expertise. We may also develop new club concepts that are consistent with our management and marketing skills. We may also acquire real estate in connection with club operations, although some clubs may be on leased premises.

We also expect to continue to grow our Internet profit centers and plan to focus in the future on high-margin activities that leverage our marketing skills while requiring a low level of start-up expense and ongoing operating costs.

### **Item 3. Controls and Procedures.**

As of the end of the period of this report, the Company's principal executive and principal financial officers carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic reports to the Securities and Exchange Commission. There have been no significant changes in the Company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

## **PART II OTHER INFORMATION**

### **Item 2. Unregistered sales of equity securities and use of proceeds**

During our quarter ended March 31, 2005, we completed the following transactions in reliance upon exemptions from registration under the Securities Act of 1933, as amended (the "Act") as provided in Section 4(2) thereof. All certificates issued in connection with these transactions were endorsed with a restrictive legend confirming that the securities could not be resold without registration under the Act or an applicable exemption from the registration requirements of the Act. None of the transactions involved a public offering, underwriting discounts or sales commissions. We believe that each person was a "qualified" investor within the meaning of the Act and had knowledge and experience in financial and business matters, which allowed them to evaluate the merits and risks of our securities. Each person was knowledgeable about our operations and financial condition.

1. In March 2005, we issued 150,000 shares of common stock to one investor and received proceeds of \$375,000.

2. In March 2005, 12,000 shares of restricted common stock were issued at a value of \$2.26 per share pursuant to a consulting agreement.

**Item 6. Exhibits.**

Exhibit 31.1 - Certification of Chief Executive Officer and Chief Financial Officer of Rick's Cabaret International, Inc. required by Rule 13a - 14(1) or Rule 15d - 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 -- Certification of Chief Executive Officer and Chief Financial Officer of Rick's Cabaret International, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.

## **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 19, 2005*

*By: /s/ Eric S. Langan*

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*Eric S. Langan*  
*Chief Executive Officer and acting Chief*  
*Financial Officer*

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Eric S. Langan, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Rick's Cabaret International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Rick's Cabaret International, Inc. as of, and for, the periods presented in this report;
4. Rick's Cabaret International, Inc.'s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for Rick's Cabaret International, Inc. and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Rick's Cabaret International, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of Rick's Cabaret International, Inc.'s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in Rick's Cabaret International, Inc.'s internal control over financial reporting that occurred during Rick's Cabaret International, Inc.'s most recent fiscal year that has materially affected, or is reasonably likely to materially affect, Rick's Cabaret International, Inc.'s internal control over financial reporting; and
5. Rick's Cabaret International, Inc.'s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Rick's Cabaret International, Inc.'s independent registered public accounting firm and the audit committee of Rick's Cabaret International, Inc.'s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Rick's Cabaret International, Inc.'s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Rick's Cabaret International, Inc.'s internal control over financial reporting.

*Date: May 19, 2005*

*By: /s/ Eric S. Langan*

*-----*

*Eric S. Langan  
Chief Executive Officer and Chief  
Financial Officer*

**CERTIFICATION PURSUANT TO RULE 13a-14(b) OR  
RULE 15d-14(b) and 18 U.S.C. Sec.1350,  
AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Rick's Cabaret International, Inc. (the "Company") on Form 10-QSB for the quarter ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric S. Langan, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Sec.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*Date: May 19, 2005*

*By: /s/ Eric S. Langan*

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*Eric S. Langan  
Chief Executive Officer and Chief  
Financial Officer*

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**End of Filing**

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