

RICKS CABARET INTERNATIONAL INC

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 5/15/2002 For Period Ending 3/31/2002

Address	505 NORTH BELT SUITE 630 HOUSTON, Texas 77060
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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: March 31, 2002

☐ 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 May 10, 2001, there were 4,567,978 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

	3/31/2002 (UNAUDITED)	9/30/2001 (AUDITED)
CURRENT ASSETS		
Cash	\$ 964,086	\$ 704,628
Accounts receivable	460,532	379,653
Prepaid expenses	81,580	81,477
Inventories	195,682	196,300
Land held for sale	---	200,000
	-----	-----
Total current assets	1,701,880	1,562,058
	-----	-----
PROPERTY AND EQUIPMENT		
Buildings, land and leasehold improvements	9,034,018	8,974,252
Furniture & equipment	1,857,883	1,545,876
	-----	-----
	10,891,901	10,520,128
Accumulated depreciation	(1,962,888)	(1,717,214)
	-----	-----
	8,929,013	8,802,914
	-----	-----
OTHER ASSETS		
Goodwill less accumulated amortization	4,581,582	4,415,391
Other	141,461	168,137
	-----	-----
	4,723,043	4,583,528
	-----	-----
	\$ 15,353,936	\$ 14,948,500
	=====	=====

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	3/31/2002 (UNAUDITED)	9/30/2001 (AUDITED)
CURRENT LIABILITIES		
Current portion of long term debt	\$ 192,160	\$ 327,162
Accounts payable - trade	240,315	234,591
Accrued expenses	438,914	499,049
	-----	-----
Total current liabilities	871,389	1,060,802
LONG TERM DEBT, LESS CURRENT PORTION		
Long-term debt less current portion	3,595,866	3,509,914
	-----	-----
Total Liabilities	4,467,255	4,570,716
	-----	-----
COMMITMENTS AND CONTINGENCIES	---	---
MINORITY INTERESTS	78,816	78,816
STOCKHOLDERS' EQUITY		
Preferred stock - \$.10 par, authorized 1,000,000 shares; none outstanding	---	---
Common stock - \$.01 par, authorized 15,000,000 shares, issued 4,598,678	45,987	45,987
Additional paid in capital	11,257,449	11,257,449
Treasury stock, at cost	(97,648)	(73,619)
Retained earnings (deficit)	(397,923)	(930,849)
	-----	-----
Total stockholder's equity	10,807,865	10,298,968
	-----	-----
	\$ 15,353,936	\$ 14,948,500
	=====	=====

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

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2002	2001	2002	2001
REVENUES				
Sales of alcoholic beverages	\$ 1,658,207	\$ 1,458,119	\$ 3,292,431	\$ 2,798,161
Sales of foods	220,988	212,391	436,575	404,336
Service revenues	1,319,776	1,361,437	2,593,095	2,634,153
Internet revenues	485,125	2,125,616	1,148,845	4,136,416
Others	226,086	240,708	493,661	476,618
	-----	-----	-----	-----
	3,910,182	5,398,271	7,964,607	10,449,684
OPERATING EXPENSES				
Cost of goods sold	716,636	2,339,866	1,579,184	4,173,895
Salaries and wages	1,229,429	1,188,951	2,496,956	2,414,953
Other general and administrative				
Taxes and permits	506,016	442,258	1,009,904	922,146
Charge card fees	45,981	85,035	107,264	169,164
Rent	96,100	78,340	148,568	155,407
Legal and accounting	156,395	178,079	307,481	395,870
Advertising	156,332	131,864	332,415	264,137
Other	640,057	715,047	1,286,687	1,380,433
	-----	-----	-----	-----
	3,546,946	5,159,440	7,268,459	9,876,005
INCOME/(LOSS) FROM OPERATIONS	363,236	238,831	696,148	573,679
Interest Expense	(82,549)	(88,305)	(174,271)	(181,118)
Interest Income	5,017	7,824	11,049	16,572
	-----	-----	-----	-----
NET INCOME	\$ 285,704	\$ 158,368	\$ 532,926	\$ 409,133
	=====	=====	=====	=====
BASIC NET INCOME PER COMMON SHARE:				
NET INCOME	\$ 0.06	\$ 0.04	\$ 0.12	\$ 0.09
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	4,567,978	4,348,678	4,567,978	4,348,678
	=====	=====	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
SIX MONTHS ENDED MARCH 31, 2001 AND 2000
(Unaudited)

	2002	2001
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 532,926	\$ 409,133
Depreciation and amortization	245,674	382,762
Changes in working capital	(134,775)	(289,231)
	-----	-----
Cash provided by operating expenses	\$ 643,825	\$ 502,664
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property equipment	(171,773)	(136,145)
Increase in goodwill and other assets	(139,515)	---
	-----	-----
Cash used by investing activities	\$ (311,288)	\$(136,145)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued, less offering costs	---	24,345
Purchase of treasury stock	(24,029)	---
Payments on long-term debt	(49,050)	(250,566)
	-----	-----
Cash provided used by financing activities	\$ (73,142)	\$(226,221)
	-----	-----
NET INCREASE IN CASH	259,458	140,298
	-----	-----
CASH AT BEGINNING OF PERIOD	\$ 704,628	\$ 374,532
	-----	-----
CASH AT END OF PERIOD	\$ 964,086	\$ 514,830
	=====	=====
CASH PAID DURING PERIOD FOR:		
Interest	\$ 174,271	\$ 181,118
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 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, 2001 included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-KSB. In the opinion of Management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the six months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending September 30, 2002.

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 MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2002	2001	2002	2001
REVENUES				
Internet Web-sites	\$ 485,125	\$ 2,125,616	\$ 1,148,845	\$ 4,136,416
Club operation	3,425,057	3,272,655	6,815,762	6,313,268
	-----	-----	-----	-----
	\$ 3,910,182	\$ 5,398,271	\$ 7,964,607	\$ 10,449,684
NET INCOME/(LOSS)				
Internet Web-sites	\$ 119,364	\$ (90,132)	\$ 256,103	\$ 179,332
Club operation	551,397	468,620	957,494	625,375
Corporate expenses	(385,057)	(220,120)	(680,671)	(395,574)
	-----	-----	-----	-----
	\$ 285,704	\$ 158,368	\$ 532,926	\$ 409,133
PROPERTY & EQUIPMENT				
Internet Web-sites			\$ 106,124	\$ 241,429
Club operation			8,822,889	8,266,805
			-----	-----
			\$ 8,929,013	\$ 8,508,234
			=====	=====

3. NEW ACCOUNTING STANDARD

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("FSA No. 142"). As its title implies, FAS No. 142 addresses the accounting for goodwill and other intangible assets. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. With respect to good will amortization, Rick's adopted FAS 142 effective October 1, 2001.

Rick's performed a transitional impairment test of its goodwill as of October 1, 2001 and determined there may be impairment to goodwill recorded in its Internet web site segment. Rick's is in the process of performing analysis and evaluation procedures to determine the effects of the impairment write-off in the 2002 fiscal year. The Company expects to take the impairment write off in the 2002 fiscal year.

The following schedule shows the effect of this change on the three month and six month periods ended March 31, 2002 and 2001:

For the three months ended March 31,	2002	2001
	-----	-----
Reported net income	\$285,704	\$158,368
Add back: Goodwill Amortization	--	98,669
Adjusted net income	\$285,704	\$257,037
Basic earnings per share:		
Reported net income	\$.06	\$.04
Goodwill amortization	--	.02
Adjusted net income	\$.06	\$.06
For the six months ended March 31,	2002	2001
	-----	-----
Reported net income	\$532,926	\$409,133
Add back: Goodwill Amortization	--	182,493
Adjusted net income	\$532,926	\$591,626
Basic earnings per share:		
Reported net income	\$.12	\$.09
Goodwill amortization	--	.04
Adjusted net income	\$.12	\$.13

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 ENDED MARCH 31, 2002 AS COMPARED TO THE THREE ENDED MARCH 31, 2001

For the three months ended March 31, 2002, the Company had consolidated total revenues of \$3,910,182 compared to consolidated total revenues of \$5,398,271 for the three months ended March 31, 2001, or an decrease of \$1,488,089. The decrease in total revenues was due to a decrease in revenues in the Company's Internet businesses of \$1,640,491. The decrease in the revenues generated by the Internet business was primarily due to the Company's efforts to migrate from high revenue sources, which produce low margins to sources that produce higher margins from less revenues. The company has not realized the full effects of this migration process, but intends to follow its plan and expects the results of operation from the Internet business to improve in future periods.

The cost of goods sold for the three months ended March 31, 2002 was 18.33% of total revenues compared to 43.34% for the three months ended March 31, 2001. The decrease in the cost of goods sold percentage was due to eliminating costs related to the Internet business and the addition of logo merchandise to our sales mix. The cost of goods sold for club operations for the three months ended March 31, 2002 was 14.99% compared to 14.19% for the three months ended March 31, 2001. 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 three months ended March 31, 2002 was 58.12% and 88.24% for the three months ended March 31, 2001.

Payroll and related costs for the three months ended March 31, 2002 were \$1,229,429 compared to \$1,188,951 for the three months ended March 31, 2001. The increase was a result of additional personnel in the club operations added to eliminate reliance on outside vendors for services. 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 March 31, 2002 were \$1,600,881 compared to \$1,630,623 for the three months ended March 31, 2001. This decrease was due to the Company's efforts to reduce costs related to the club operations and to the elimination of costs related to the Internet business.

Interest expense for the three months ended March 31, 2002 was \$82,549 compared to \$88,305 for the three months ended March 31, 2001. 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 three months ended March 31, 2002 was \$285,704 compared to \$158,368 for the three months ended March 31, 2001. The increase in net income was primarily due to the increase in revenues in the Company's club locations and to the reduction in cost of goods sold and selling, general and administrative expenses.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2002 AS COMPARED TO THE SIX MONTHS ENDED MARCH 31, 2001

For the six months ended March 31, 2002, the Company had consolidated total revenues of \$7,964,607 compared to consolidated total revenues of \$10,449,684 for the fiscal six months ended March 31, 2001, or a decrease of \$2,485,077. The decrease in total revenues was due to the decline in revenues from the Internet business as a result of 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, 2002 was 19.83% of total revenues compared to 39.95% for the six months ended March 31, 2001. This decrease is attributable to the elimination of cost of goods sold related to the Internet business. The cost of goods sold for the club operations for the six months ended March 31, 2002 was 15.04% and 14.25% for the six months

ended March 31, 2001. 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 six months ended March 31, 2002 were \$2,496,956 compared to \$2,414,953 for the six months ended March 31, 2001. This increase is a result additional personnel added to the Company's club operations to eliminate reliance on outside vendors for services. Management currently believes that its labor and management staff levels are of appropriate levels.

Other selling, general and administrative expenses for the six months ended March 31, 2002 were \$3,192,319 compared to \$3,287,157 for the six months ended March 31, 2001. The decrease was due to the Company's efforts to control costs and to the elimination of costs related to the Internet business.

Interest expense for the six months ended March 31, 2002 was \$174,271 compared to \$181,118 for the six months ended March 31, 2001. The decrease was primarily attributable to Company's aggressive effort to pay off its debt and not acquire new debt.

Net income for the six months ended March 31, 2002 was \$532,926 compared to \$409,133 for the six months ended March 31, 2001. The increase in net income was primarily due to the increase in revenues in Company's club locations, to lower cost of goods sold and to a reduction in selling, general and administrative expenses. Management currently believes that the Company is in the position to continue to be profitable in fiscal 2002.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2002, the Company had working capital of \$830,491 compared to \$501,256 at September 30, 2001. The increase in working capital was due primarily to the increase in net income.

Net cash provided by operating activities in the six months ended March 31, 2002 was \$643,825 compared to \$502,664 for the six months ended March 31, 2001. The increase in cash provided by operating activities was due principally to the increase in net income from operation.

Depreciation and Amortization for the six months ended March 31, 2002 were \$245,674 compared to \$382,762 for the six months ended March 31, 2001.

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 1. LEGAL PROCEDURES

Not Applicable

Item 2. CHANGES IN SECURITIES

Not Applicable

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable

Item 5. OTHER INFORMATION

Not Applicable

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits None

b. Form 8-K No reports on Form 8-k were filed during the quarter ended March 31, 2002.

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 14, 2002

*By: /s/ Eric S. Langan
Eric S. Langan
President and Chief Accounting Officer*

End of Filing

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