

RICKS CABARET INTERNATIONAL INC

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 2/11/2002 For Period Ending 12/31/2001

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: December 31, 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 January 28, 2002, there were 4,595,494 shares of common stock, \$.01 par value, outstanding.

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

RICK'S CABARET INTERNATIONAL, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

ASSETS

	12/31/01 (UNAUDITED)	9/30/01 (AUDITED)
CURRENT ASSETS		
Cash	\$ 838,103	\$ 704,628
Accounts receivable	361,459	379,653
Prepaid expenses	89,507	81,477
Inventories	203,262	196,300
Land held for sale	---	200,000
	-----	-----
Total current assets	1,492,331	1,562,058
	-----	-----
PROPERTY AND EQUIPMENT		
Buildings, land and leasehold improvements	9,039,980	8,974,252
Furniture and equipment	1,810,570	1,545,876
	-----	-----
	10,850,550	10,520,128
Accumulated depreciation	(1,837,142)	(1,717,214)
	-----	-----
	9,013,408	8,802,914
	-----	-----
OTHER ASSETS		
Goodwill less accumulated amortization	4,499,223	4,415,391
Other	143,635	168,137
	-----	-----
	4,642,858	4,483,528
	-----	-----
	\$15,148,597	\$14,948,500
	=====	=====

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	12/31/01 (UNAUDITED)	9/30/01 (AUDITED)
CURRENT LIABILITIES		
Current portion of long term debt	\$ 264,419	\$ 327,162
Accounts payable - trade	235,874	234,591
Accrued expenses	554,490	499,049
	-----	-----
Total current liabilities	1,054,783	1,060,802
LONG TERM DEBT, LESS CURRENT PORTION		
Long-term debt less current portion	3,491,405	3,509,914
	-----	-----
Total Liabilities	4,546,188	4,570,716
	-----	-----
COMMITMENTS AND CONTINGENCIES		
MINORITY INTERESTS	80,248	78,816
STOCKHOLDERS' EQUITY		
Preferred stock - \$.10 par, authorized 1,000,000shares; none outstanding	---	---
Common stock - \$.01 par, authorized 15,000,000 shares issued 4,598,678 and 4,598,678	45,987	45,987
Additional paid in capital	11,257,449	11,257,449
Retained earnings (deficit)	(683,627)	(930,849)
Treasury stocks, at cost	(97,648)	(73,619)
	-----	-----
Total stockholders' equity	10,522,161	10,298,968
	-----	-----
	\$15,148,597	\$14,948,500
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31, 2001 AND 2000

	2001 (UNAUDITED)	2000 (UNAUDITED)
REVENUES		
Sales of alcoholic beverages	\$ 1,634,224	\$ 1,340,042
Sales of food and merchandise	215,587	191,945
Service revenues	1,273,319	1,272,716
Internet revenues	663,720	2,010,800
Other	267,575	235,910
	-----	-----
	4,054,425	5,051,413
	-----	-----
OPERATING EXPENSES		
Cost of goods sold	862,548	1,834,029
Salaries and wages	1,267,527	1,226,002
Other general and administrative		
Taxes and permits	503,888	479,888
Charge card fees	61,283	84,129
Rent	52,468	77,067
Legal and professional	151,086	217,791
Advertising and marketing	176,083	132,273
Other	646,630	665,386
	-----	-----
	3,721,513	4,716,565
	-----	-----
INCOME FROM OPERATIONS	332,912	334,848
Interest income	6,032	8,730
Interest Expense	(91,722)	(92,813)
	-----	-----
Net Income	\$ 247,222	\$ 250,765
	=====	=====
NET INCOME PER COMMON SHARE	\$ 0.06	\$ 0.06
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	4,595,494	4,348,678
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED DECEMBER 31, 2001 AND 2000

	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:	2001	2000
NET INCOME	\$ 247,222	\$ 250,765
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	119,928	99,631
Amortization of goodwill	0	83,824
Minority interests	1,432	3,159
Changes in assets and liabilities:		
Accounts receivable	18,194	(91,763)
Prepaid expenses	(8,030)	42,046
Inventories	(6,962)	9,790
Accounts payable and accrued expenses	56,724	(16,572)
Cash provided by operating activities	428,508	380,880
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(130,422)	(107,424)
Increase in goodwill and other assets	(59,330)	(156,725)
Cash used by investing activities	(189,752)	(264,149)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued	0	50
Purchase of treasury stock	(24,029)	
Payments on long term debt	(81,252)	(132,010)
Cash used by financing activities	(105,281)	(131,960)
NET INCREASE/(DECREASE) IN CASH	133,475	(15,229)
CASH AT BEGINNING OF PERIOD	704,628	374,532
CASH AT END OF PERIOD	\$ 838,103	\$ 359,303
	=====	=====
CASH PAID DURING PERIOD FOR:		
Interest	\$ 91,722	\$ 92,813
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 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 three months ended December 31, 2001 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 by segment.

	FOR THE THREE MONTHS ENDED DECEMBER 31, 2001	FOR THE THREE MONTHS ENDED DECEMBER 31, 2000
REVENUES		
Internet Web-sites	\$ 663,720	\$ 2,010,800
Clubs operation	3,390,705	3,040,613
	-----	-----
	\$ 4,054,425	\$ 5,051,413
	=====	=====
NET INCOME/(LOSS)		
Internet Web-sites	\$ 136,739	\$ 269,464
Clubs operation	320,406	156,755
Corporate expenses	(209,923)	(175,454)
	-----	-----
	\$ 247,222	\$ 250,765
	=====	=====
PROPERTY & EQUIPMENT, NET DEPRECIATION		
Internet Web-sites	\$ 113,990	\$ 248,941
Club operation	8,699,418	8,331,034
	-----	-----
	\$ 8,813,408	\$ 8,579,975
	=====	=====

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" ("SFAS No. 142"). As its title implies, SFAS No. 142 addresses the accounting for goodwill and other intangible assets and will be effective for the Company's fiscal year beginning October 1, 2001. Under SFAS 142, goodwill will no longer be amortized. Instead, goodwill will be tested for impairment initially and on an annual basis thereafter at a level of reporting referred to as the reporting unit. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any.

The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill shall be its new accounting basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is completed.

The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, an entity shall allocate the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

The Company plans to implement its formal goodwill impairment testing by the end of the three month period ending March 31, 2002.

For the quarter ended December 31,	2001	2000
	-----	-----
Reported net income	\$247,222	\$250,765
Add back: Goodwill Amortization	--	83,824
Adjusted net income	\$247,222	\$334,589
Basic earnings per share:		
Reported net income	\$.06	\$.06
Goodwill amortization	--	.02
Adjusted net income	\$.06	\$.08

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

The following discussion should be read in conjunction with our audited consolidated financial statements and related notes thereto included in this annual report.

FORWARD LOOKING STATEMENT AND INFORMATION

The Company is including the following cautionary statement in this Form 10-KSB 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-KSB 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, 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

Our Company presently conducts its business in two different areas of operation:

1. We own and operate upscale adult nightclubs serving primarily businessmen and professionals that offer live adult entertainment, restaurant and bar operations. We own and operate six adult nightclubs under the name "Rick's Cabaret" and "XTC" in Houston, Austin and San Antonio, Texas, and Minneapolis, Minnesota. On November 17, 2001, we opened an adult-themed club called "Encounters" that serves the couples or "swingers" market in Houston. No sexual contact is permitted at any of our locations.

2. We have various Internet activities.

a) We currently own three adult Internet membership Web sites at www.dancerdorm.com , www.amateurdan.com, and www.xxxpassword.com. During the course of the fiscal year ending September 30, 2001, we changed our Internet strategy and no longer create the content for these sites, opting instead to purchase content from wholesalers at what we believe will be a cost saving.

b) We operate a network of six online auction sites accessible on the Internet under the flagship site www.naughtybids.com. These sites provide customers with the opportunity to purchase adult products and services in an auction format. We earn revenues by charging service fees for each transaction conducted on the highly automated sites, all of which utilize a single technology platform operated by us.

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 Web sites, 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 DECEMBER 31, 2001 AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2000

For the three months ended December 31, 2001, the Company had consolidated total revenues of \$4,054,425 compared to consolidated total revenues of \$5,051,413 for the three months ended December 31, 2000, or a decrease of \$996,988. The decrease in total revenues was primarily due to the decrease in revenues generated by the Company's Internet businesses. The Company's Internet entertainment business is in a transitional phase. Management is rigorously eliminating costly subscription marketing programs that generate high revenues but which have low margin yields. Instead, we are focusing on programs with third parties that are expected to generate higher margins on reduced revenues. This transitional phase is expected to last through the first half of the present fiscal year, during which income from Internet operations may be impacted.

The cost of goods sold for the three months ended December 31, 2001 was 21.28% of total revenues compared to 36.31% for the three months ended December 31, 2000. The decrease was due primarily to the reduction in costs of maintaining our Internet operations. The cost of goods sold for the club operation for the three months ended December 31, 2001 was 14.75% of the sales of alcoholic beverages and food compared to 14.31% for the three months ended December 31, 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 three months ended December 31, 2001 was 70.02%.

Payroll and related costs for the three months ended December 31, 2001 were \$1,267,527 compared to \$1,226,002 for the three months ended December 31, 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 three months ended December 31, 2001 were \$1,591,438 compared to \$1,656,484 for the three months ended December 31, 2000. The decrease was due to reductions in rent, legal and professional, and other expenses.

Interest expense for the three months ended December 31, 2001 was \$91,722 compared to \$ 92,813 for the three months ended December 31, 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 three months ended December 31, 2001 was \$247,222 compared to a net income of \$250,765 for the three months ended December 31, 2000. The decrease in net income was primarily due to the decrease in revenues in Company's internet business.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2001, the Company had working capital of \$437,548 compared to working capital of \$501,256 at September 30, 2001.

Net cash provided by operating activities in the three months ended December 31, 2001 was \$428,508 compared to net cash provided of \$380,880 for the three months ended December 31, 2000. The increase in cash provided by operating activities was due to a decrease in accounts receivable and the effect of accumulated depreciation.

Depreciation and Amortization for the three months ended December 31, 2001 were \$119,928 compared to \$183,455 for the three months ended December 31, 2000. There was no amortization for the three months ended December 31, 2001.

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 inventories 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.

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 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 research, new clubs may be opened, or existing clubs acquired, 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 equity in the form of our brand name and management expertise. As is the case of the aforementioned Encounters club 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 in 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.

PART II OTHER INFORMATION

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: February 11, 2002

*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 December 31, 2001 and 2000, and the related statements of income and cash flows for the three month periods then ended. 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, 2001, and the related statements of earnings and cash flows for the year then ended (not presented separately herein), and in our report dated November 9, 2001, 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, 2001, 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
February 11, 2002