

**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, 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 February 3, 2003, there were 3,721,648 shares of common stock, \$.01 par value, outstanding.

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

TABLE OF CONTENTS

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PART I FINANCIAL INFORMATION

Item 1	Financial Statements	
	Consolidated Balance Sheets as of December 31, 2002 (unaudited) and September 30, 2002 (audited). . . . .	1
	Consolidated Statements of Operations for the three months ended December 31, 2002 and 2001 (unaudited). . . . .	3
	Consolidated Statements of Cash Flows for the three months ended December 31, 2002 and 2001 (unaudited). . . . .	4
	Notes to Consolidated Financial Statements. . . . .	5
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations . . . . .	7

PART II OTHER INFORMATION

Item 6.	Exhibits and Reports on Form 8-K . . . . .	11
	Signatures . . . . .	12

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETSASSETS  
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	12/31/02 (UNAUDITED)	9/30/02 (AUDITED)
CURRENT ASSETS		
Cash	\$ 875,200	\$ 733,366
Accounts receivable	178,974	226,637
Prepaid expenses	93,770	63,897
Inventories	220,006	210,802
	-----	-----
Total current assets	1,367,950	1,234,702
	-----	-----
PROPERTY AND EQUIPMENT		
Buildings, land and leasehold improvements	9,391,319	9,278,260
Furniture and equipment	1,801,277	1,938,705
	-----	-----
	11,192,596	11,216,965
Accumulated depreciation	(2,137,580)	(2,094,712)
	-----	-----
Total property and equipment, net	9,055,016	9,122,253
	-----	-----
OTHER ASSETS		
Goodwill less accumulated amortization	1,883,007	1,883,007
Other	186,516	197,358
	-----	-----
Total other assets	2,069,523	2,080,365
	-----	-----
Total Assets	\$ 12,492,489	\$ 12,437,320
	=====	=====

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	12/31/02 (UNAUDITED)	9/30/02 (AUDITED)
CURRENT LIABILITIES		
Current portion of long term debt	\$ 465,994	\$ 459,972
Accounts payable - trade	302,376	274,659
Accrued expenses	588,185	533,068
	-----	-----
Total current liabilities	1,356,556	1,267,699
LONG TERM DEBT, LESS CURRENT PORTION		
Long-term debt less current portion	4,083,992	4,147,381
	-----	-----
Total Liabilities	5,440,547	5,415,080
	-----	-----
COMMITMENTS AND CONTINGENCIES		
MINORITY INTERESTS	77,732	80,164
	-----	-----
STOCKHOLDERS' EQUITY		
Preferred stock - \$.10 par, authorized 1,000,000 shares; none outstanding	---	---
Common stock - \$.01 par, authorized 15,000,000 shares; 4,608,678 issued; 3,730,948 and 3,747,648 outstanding	46,087	46,087
Additional paid in capital	11,273,149	11,273,149
Retained earnings (deficit)	(3,107,355)	(3,202,029)
Treasury stocks, at cost	(1,237,671)	(1,175,131)
	-----	-----
Total stockholders' equity	6,974,210	6,942,076
	-----	-----
Total liabilities and stockholders' equity	\$12,492,489	\$12,437,320
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
THREE MONTHS ENDED DECEMBER 31, 2002 AND 2001

	2002 (UNAUDITED)	2001 (UNAUDITED)
REVENUES		
Sales of alcoholic beverages	\$ 1,628,807	\$ 1,634,224
Sales of food	233,562	215,587
Service revenues	1,317,792	1,273,319
Internet revenues	331,488	663,720
Other revenues	219,759	267,575
	-----	-----
Total revenues	3,731,408	4,054,425
	-----	-----
OPERATING EXPENSES		
Cost of goods sold	565,355	862,548
Salaries and wages	1,343,469	1,267,527
Other general and administrative		
Taxes and permits	482,212	503,888
Charge card fees	61,071	61,283
Rent	55,655	52,468
Legal and professional	206,532	151,086
Advertising and marketing	178,337	176,083
Other	650,138	646,630
	-----	-----
Total operating expenses	3,542,769	3,721,513
	-----	-----
INCOME FROM OPERATIONS	188,639	332,912
Interest income	3,855	6,032
Interest Expense	(97,820)	(91,722)
	-----	-----
Net Income	\$ 94,674	\$ 247,222
	=====	=====
NET INCOME PER COMMON SHARE	\$ 0.03	\$ 0.06
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	3,758,515	4,595,494
	=====	=====

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED DECEMBER 31, 2002 AND 2001

	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:	2002	2001
NET INCOME	\$ 94,674	\$ 247,222
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	129,677	119,928
Minority interests	(2,432)	1,432
Changes in assets and liabilities:		
Accounts receivable	47,663	18,194
Prepaid expenses	(29,873)	(8,030)
Inventories	(9,204)	(6,962)
Accounts payable and accrued expenses	82,834	56,724
	-----	-----
Cash provided by operating activities	313,339	428,508
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(62,440)	(130,422)
Decrease in goodwill and other assets	10,842	(59,330)
	-----	-----
Cash used by investing activities	(51,598)	(189,752)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(62,540)	(24,029)
Payments on long term debt	(57,367)	(81,252)
	-----	-----
Cash used by financing activities	(119,907)	(105,281)
	-----	-----
NET INCREASE IN CASH	141,834	133,475
CASH AT BEGINNING OF PERIOD	733,366	704,628
	-----	-----
CASH AT END OF PERIOD	\$ 875,200	\$ 838,103
	=====	=====
CASH PAID DURING PERIOD FOR:		
Interest	\$ 97,820	\$ 91,722
	=====	=====

# RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

### 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, 2002 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, 2002 are not necessarily indicative of the results that may be expected for the year ending September 30, 2003.

### 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, 2002	FOR THE THREE MONTHS ENDED DECEMBER 31, 2001
REVENUES		
Internet Web-sites	\$ 331,488	\$ 663,720
Clubs operation	3,399,920	3,390,705
	-----	-----
	\$ 3,731,408	\$ 4,054,425
	=====	=====
NET INCOME/(LOSS)		
Internet Web-sites	\$ 34,756	\$ 136,739
Clubs operation	387,842	320,406
Corporate expenses	(327,924)	(209,923)
	-----	-----
	\$ 94,674	\$ 247,222
	=====	=====
PROPERTY & EQUIPMENT, NET DEPRECIATION		
Internet Web-sites	\$ 122,986	\$ 113,990
Club operation	8,932,030	8,699,418
	-----	-----
	\$ 9,055,016	\$ 8,813,408
	=====	=====

## **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-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**

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. We also own and operate 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 extensive Internet activities.

a) We currently own two adult Internet membership Web sites at [www.couplestouch.com](http://www.couplestouch.com) and [www.xxxpassword.com](http://www.xxxpassword.com). We acquire our website content from wholesalers.

b) We operate a network of six online auction sites accessible on the Internet under the flagship site [www.naughtybids.com](http://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 that we operate.

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, 2002 AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2001**

For the three months ended December 31, 2002, the Company had consolidated total revenues of \$3,731,408 compared to consolidated total revenues of \$4,054,425 for the three months ended December 31, 2001, or a decrease of \$323,017. The decrease in total revenues was primarily due to the decrease in revenues generated by the Company's Internet businesses. Management believes we are seeing the bottom out effect in internet revenues due to the aging of the adult internet marketing programs for adult sites. While revenues for [www.xxxpassword.com](http://www.xxxpassword.com), the Company's content membership site, has continued to decline, revenues from auction sites continues to increase. The Company will start charging for membership to [www.couplestouch.com](http://www.couplestouch.com) in February 2003. [www.couplestouch.com](http://www.couplestouch.com) is like a single dating site for couples seeking others for sexual relationships/friendships.

The cost of goods sold for the three months ended December 31, 2002 was 15.16% of total revenues compared to 21.28% for the three months ended December 31, 2001. 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, 2002 was 15.64% of the sales of alcoholic beverages and food compared to 14.75% for the three months ended December 31, 2001. The increase was due primarily to the increase in food costs and our \$1.25 a drink specials during Monday Night Football games. 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, 2002 was 22.73%.

Payroll and related costs for the three months ended December 31, 2002 were \$1,343,469 compared to \$1,267,527 for the three months ended December 31, 2001.

The increase was a reflection of the additional personnel experienced by the Company. Management currently believes that its labor and management staff levels are at appropriate levels.

Other selling, general and administrative expenses for the three months ended December 31, 2002 were \$1,633,945 compared to \$1,591,438 for the three months ended December 31, 2001. The increase was due primarily to increase in legal and professional, insurance, maintenance and repairs, and other expenses.

Interest expense for the three months ended December 31, 2002 was \$97,820 compared to \$91,722 for the three months ended December 31, 2001. The increase was primarily due to the addition of new debts related to the purchase of treasury stocks.

Net income for the three months ended December 31, 2002 was \$94,674 compared to a net income of \$247,222 for the three months ended December 31, 2001. The decrease in net income was primarily due to the decrease in revenues in the Company's internet business and an increase in corporate expenses.

## **LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2002, the Company had a working capital of \$11,394 compared to a working capital deficit of \$32,997 at September 30, 2002.

Net cash provided by operating activities in the three months ended December 31, 2002 was \$313,339 compared to net cash provided of \$428,508 for the three months ended December 31, 2001. The decrease in cash provided by operating activities was due to a decrease in net income.

Depreciation expense for the three months ended December 31, 2002 were \$129,677 compared to \$119,928 for the three months ended December 31, 2001. There was no amortization for the three months ended December 31, 2002 and 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. 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 -- Certification of Chief Executive Officer and Chief Financial Officer of Rick's Cabaret International, Inc.

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, 2003*

*By: /s/ Eric S. Langan*

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



## EXHIBIT 99.1

**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 1992 and Section 1350 of 18 U.S.C. 63.**

I, Eric S. Langan, the Chief Executive Officer and acting Chief Financial Officer of Rick's Cabaret International, Inc., hereby certify that Rick's Cabaret International, Inc.'s periodic report on Form 10QSB for the period ending December 31, 2002, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and that information contained in the periodic report on Form 10QSB fairly presents, in all material respects, the financial condition and results of the operations of Rick's Cabaret International, Inc.

**RICK'S CABARET INTERNATIONAL, INC.**

*Date: February 11, 2003*

*By: /s/ Eric Langan*

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*Eric S. Langan*

*Chief Executive Officer and  
acting Chief Financial Officer*

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Eric 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 11, 2003

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*/s/ Eric Langan  
Eric S. Langan  
Chief Executive Officer*



## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Eric 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 11, 2003

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*/s/ Eric Langan  
Eric S. Langan  
Chief Financial Officer*

