

RICKS CABARET INTERNATIONAL INC
Form 10-Q
May 12, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-13992

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
(I.R.S. Employer Identification No.)

10959 Cutten Road
Houston, Texas 77066
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 4, 2009, 9,215,962 shares of the Registrant's Common Stock were outstanding.



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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

ASSETS

	MARCH 31, 2009 (UNAUDITED)	SEPTEMBER 30, 2008
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,330,825	\$ 5,493,893
Accounts receivable		
Trade, net	877,399	629,139
Other, net	227,039	229,930
Inventories	1,640,822	1,683,196
Prepaid expenses and other current assets	1,045,197	559,221
Assets of discontinued operations	2,223,100	3,521,034
Total current assets	11,344,382	12,116,413
PROPERTY AND EQUIPMENT:		
Buildings, land and leasehold improvements	43,469,308	45,038,010
Furniture and equipment	13,478,257	11,058,014
	56,947,565	56,096,024
Accumulated depreciation	8,950,543	7,514,922
Total property and equipment, net	47,997,022	48,581,102
OTHER ASSETS:		
Goodwill and indefinite lived intangibles	74,751,525	74,703,174
Definite lived intangibles, net	1,041,554	1,194,592
Other	934,225	473,525
Total other assets	76,727,304	76,371,291
Total assets	\$ 136,068,708	\$ 137,068,806

See accompanying notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 31, 2009 (UNAUDITED)	SEPTEMBER 30, 2008
CURRENT LIABILITIES:		
Accounts payable – trade	\$ 901,461	\$ 1,167,905
Accrued liabilities	3,666,094	4,427,946
Current portion of long-term debt	2,364,855	2,644,541
Liabilities of discontinued operations	358,648	465,576
Total current liabilities	7,291,058	8,705,968
Deferred tax liability	17,139,575	16,616,302
Other long-term liabilities	589,884	537,967
Long-term debt, less current portion	29,657,343	30,312,865
Long-term debt - related parties	-	600,000
Total liabilities	54,677,860	56,773,102
COMMITMENTS AND CONTINGENCIES		
MINORITY INTERESTS	3,355,096	3,358,096
TEMPORARY EQUITY – Common stock, subject to put rights (611,740 shares)	13,935,020	13,935,020
PERMANENT STOCKHOLDERS' EQUITY:		
Preferred stock, \$.10 par, 1,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.01 par, 15,000,000 shares authorized; 9,689,315 shares issued	96,893	96,893
Additional paid-in capital	53,988,255	53,948,172
Accumulated other comprehensive income	-	(13,347)
Retained earnings	11,894,953	10,264,650
Less 1,070,571 and 908,530 shares of common stock held in treasury, at cost, respectively	(1,879,369)	(1,293,780)
Total permanent stockholders' equity	64,100,732	63,002,588
Total liabilities and stockholders' equity	\$ 136,068,708	\$ 137,068,806

See accompanying notes to consolidated financial statements.

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

	FOR THE THREE MONTHS		FOR THE SIX MONTHS	
	ENDED MARCH 31,		ENDED MARCH 31,	
	2009 (UNAUDITED)	2008	2009 (UNAUDITED)	2008 (UNAUDITED)
Revenues:				
Sales of alcoholic beverages	\$ 6,955,904	\$ 5,503,529	\$ 13,522,731	\$ 9,560,502
Sales of food and merchandise	1,566,828	1,296,197	2,979,806	2,335,297
Service revenues	8,758,735	7,615,581	16,859,729	12,598,386
Internet revenues	164,631	172,712	341,394	343,501
Media revenues	285,331	-	468,967	-
Other	628,932	505,013	1,194,154	998,069
Total revenues	18,360,361	15,093,032	35,366,781	25,835,755
Operating expenses:				
Cost of goods sold	2,216,457	1,543,941	4,424,126	2,823,980
Salaries and wages	3,986,476	3,127,219	8,148,162	5,575,081
Stock compensation	20,044	39,270	40,088	78,540
Other general and administrative:				
Taxes and permits	2,367,248	1,900,759	4,635,912	3,078,975
Charge card fees	446,947	250,565	781,639	446,989
Rent	845,823	516,677	1,707,185	878,098
Legal and professional	810,501	337,991	1,310,750	629,639
Advertising and marketing	1,677,196	471,874	2,813,367	748,022
Insurance	265,906	161,365	503,385	350,298
Utilities	371,126	265,244	796,039	456,986
Depreciation and amortization	814,279	578,281	1,615,658	1,021,774
Other	1,295,474	1,171,567	2,677,716	2,057,443
Total operating expenses	15,117,477	10,364,753	29,454,027	18,145,825
Operating income	3,242,884	4,728,279	5,912,754	7,689,930
Other income (expense):				
Interest income	1,659	26,403	7,393	69,472
Interest expense	(808,831)	(658,673)	(1,636,302)	(1,102,556)
Minority interests	(73,500)	-	(147,000)	177,911
Income from continuing operations before income taxes	2,362,212	4,096,009	4,136,845	6,834,757
Income taxes	856,625	1,241,962	1,503,189	1,932,398
Income from continuing operations	1,505,587	2,854,047	2,633,656	4,902,359
Loss from discontinued operations, net of income taxes	(666,116)	(248,667)	(1,003,353)	(513,707)
Net income	\$ 839,471	\$ 2,605,380	\$ 1,630,303	\$ 4,388,652
Basic earnings per share:				
Income from continuing operations	\$ 0.16	\$ 0.38	\$ 0.28	\$ 0.68
Loss from discontinued operations	\$ (0.07)	\$ (0.03)	\$ (0.11)	\$ (0.07)

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Net income	\$	0.09	\$	0.34	\$	0.17	\$	0.61
Diluted earnings per share:								
Income from continuing operations	\$	0.16	\$	0.35	\$	0.28	\$	0.63
Loss from discontinued operations	\$	(0.07)	\$	(0.03)	\$	(0.11)	\$	(0.06)
Net income	\$	0.09	\$	0.32	\$	0.17	\$	0.56
Weighted average number of common shares outstanding:								
Basic		9,313,819		7,561,163		9,339,926		7,183,699
Diluted		9,487,528		8,473,497		9,543,741		8,012,745

Comprehensive income for the three months ended March 31, 2009 and 2008 was \$839,471 and \$2,594,257, and for the six months were \$1,630,303 and \$4,361,957, respectively. This includes the changes in available-for-sale securities and net income.

See accompanying notes to consolidated financial statements.

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

FOR THE SIX MONTHS
ENDED MARCH 31,
2009 2008
(UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 1,630,303	\$ 4,388,652
Loss from discontinued operations, net of income taxes	1,003,353	513,707
Income from continuing operations	2,633,656	4,902,359
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,615,658	1,021,774
Deferred taxes	476,453	158,269
Amortization of note discount	-	17,776
Beneficial conversion	11,389	8,976
Minority interests	147,000	(177,911)
Deferred rents	51,917	58,776
Common stock issued for interest payment	-	56,770
Stock compensation expense	40,088	78,540
Other	13,347	-
Changes in operating assets and liabilities	(1,563,765)	537,565
Cash provided by operating activities of continuing operations	3,425,743	6,662,894
Cash used by operating activities of discontinued operations	(383,211)	(207,577)
Net cash provided by operating activities	3,042,532	6,455,317

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of property	-	36,000
Additions to property and equipment	(878,540)	(1,709,656)
Acquisition of businesses, net of cash acquired	(48,351)	(18,235,143)
Payments from notes receivable	4,079	63,991
Cash used in investing activities of continuing operations	(922,812)	(19,844,808)
Cash used in investing activities of discontinued operations	(602)	(779,102)
Net cash used in investing activities	(923,414)	(20,623,910)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from sale of common stock	-	14,976,700
Proceeds from stock options exercised	-	168,700
Proceeds from long-term debt	-	2,000,000
Payments on long-term debt	(1,546,597)	(2,602,545)
Purchase of treasury stock	(585,589)	-
Distribution to minority interests	(150,000)	-
Cash provided by (used in) financing activities of continuing operations	(2,282,186)	14,542,855

NET INCREASE (DECREASE) IN CASH	(163,068)	374,262
CASH AT BEGINNING OF PERIOD	5,493,893	2,915,534
CASH AT END OF PERIOD	\$ 5,330,825	\$ 3,289,796
CASH PAID DURING PERIOD FOR:		
Interest	\$ 1,491,456	\$ 1,038,271

Income taxes	\$ 1,655,000	\$ 565,988
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See accompanying notes to consolidated financial statements.

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Non-cash transactions:

In March 2009, the Company sold 100% of the common stock of Texas S&I which owned and operated the Encounters nightclub for \$40,000, including a note for \$35,000.

On November 30, 2007, the Company purchased Tootsie's Cabaret in Florida for \$25,486,000 (which includes inventories and other assets), payable to the sellers \$15,486,000 in cash, \$10,000,000 pursuant to two secured promissory notes in the amount of \$5,000,000 each, plus estimated transaction costs of \$125,000.

In November 2007, the holder of a convertible debenture converted \$713,807 of principal and interest owed into 150,134 shares of restricted common stock.

In February 2008, the holder of a convertible debenture converted \$21,918 of interest owed into 1,826 shares of restricted common stock.

In February 2008, the Company purchased an aircraft through the issuance of a note payable of \$1,561,500.

On March 31, 2008, in connection with the acquisition of the remaining 49% of its Austin, Texas club, the Company issued 35,000 common shares valued at \$700,000.

On March 31, 2008, the Company purchased Crazy Horse Too Cabaret in Philadelphia for \$7,985,000 payable to the Sellers \$3,500,000 in cash and \$4,485,000 pursuant to the issuance of 195,000 shares of restricted common stock.

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(UNAUDITED)

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-Q of Regulation S-X. 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, 2008 included in the Company's Annual Report on Form 10-KSB, as 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 and six months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. Certain prior period amounts in the accompanying consolidated financial statements have been reclassified to conform to the current presentation.

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141R, "Business Combinations," ("SFAS 141R"). SFAS 141R requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. The Statement applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 and will be effective for the Company beginning in fiscal 2010 for business combinations occurring after the effective date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," ("SFAS 160"). SFAS 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. The Statement applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and is effective for the Company beginning in fiscal 2010. The Company does not expect that SFAS 160 will have a material impact on its consolidated financial statements.

In December 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," ("SFAS 157"). SFAS 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements, but does not change existing guidance as to whether or not an instrument is carried at fair value. For financial assets and liabilities, SFAS 157 is effective for fiscal years beginning after November 15, 2007, which will require the Company to adopt these provisions in fiscal 2009. For nonfinancial assets and liabilities, SFAS 157 is effective for fiscal years beginning after November 15, 2008, which will require the Company to adopt these provisions in fiscal 2010. In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS 159"). SFAS 159 provides companies with an option to report selected assets and liabilities at fair value. This statement contains financial statement presentation and disclosure requirements for assets and liabilities

reported at fair value as a consequence of the election and is effective for the Company beginning in fiscal 2009. The initial adoption of SFAS 157 did not have a material effect on the Company's consolidated financial condition or results of operations. However, the Company is still in the process of evaluating this standard with respect to its effect on non-financial assets and liabilities and has not yet determined the impact that it will have on the Company's financial statements upon full adoption. The adoption of SFAS 159 did not have a material effect on the Company's consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2009

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS – continued

The Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 110 which expresses the views of the staff regarding the use of a "simplified" method, as discussed in SAB No. 107 ("SAB 107"), in developing an estimate of expected term of "plain vanilla" share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment". In particular, the staff indicated in SAB 107 that it will accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB 107 was issued, the staff believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. Therefore, the staff stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. The staff understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. There were no option grants during the six months ended March 31, 2009.

3. STOCK OPTIONS AND STOCK-BASED EMPLOYEE COMPENSATION

Below is the summary of common stock options outstanding as of March 31, 2009:

	Options Authorized	Options Outstanding	Options Vested	Available for Grant
Employee and Director Stock Option Plan:				
1999 Stock Option Plan	1,500,000	420,000	410,000	438,000

Employee and Director Stock Option Plans

In August 1999, the Company adopted the 1999 Stock Option Plan ("the Plan"). The options granted under the Plan may be either incentive stock options or non-qualified options. The Plan is administered by the Board of Directors or by a compensation committee of the Board of Directors. The Board of Directors has the exclusive power to select individuals to receive grants, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price equal to at least 85% of the fair market value of the common stock covered by the option on the grant date and to make all determinations necessary or advisable under the Plan. The options are subject to termination of employment and generally expire five years from the date of grant. Employee options generally vest in installments over two years. As of March 31, 2009, 438,000 shares of common stock were available for future grants under the Plan.

The compensation cost recognized for the six months ended March 31, 2009 and 2008 was \$40,088 and \$78,540, respectively. There were zero and 40,000 stock options exercised for the six months ended March 31, 2009 and 2008, respectively. There were no stock options granted for the six month periods ended March 31, 2009 and 2008.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009

3. STOCK OPTIONS AND STOCK-BASED EMPLOYEE COMPENSATION - continued

Stock Option Activity

The following is a summary of all stock option transactions for the six months ended March 31, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2008	420,000	\$ 3.86		
Granted	-	-		
Cancelled or expired	-	-		
Exercised	-	-		
Outstanding as of March 31, 2009	420,000	\$ 3.86	.75	\$ 669,550
Options exercisable as of March 31, 2009	410,000	\$ 3.73	.68	\$ 669,550

4. GOODWILL AND OTHER INTANGIBLES

Following are the changes in the carrying amounts of goodwill and licenses for the six months ended March 31, 2009 and 2008:

	March 31, 2009		March 31, 2008	
	Licenses	Goodwill	Licenses	Goodwill
Beginning balance	\$ 39,298,343	\$ 35,404,831	\$ 12,899,431	\$ 5,525,659
Intangibles acquired	-	48,351	23,919,095	10,136,700
Ending balance	\$ 39,298,343	\$ 35,453,182	\$ 36,818,526	\$ 15,662,359

5. LONG-TERM DEBT

During November 2008, \$600,000 of related party debt matured and was paid in cash by the Company. The Company also made additional payments of \$946,597 on other long-term debt during the six months ended March 31, 2009.

6. COMMON STOCK

During the six months ended March 31, 2009, the Company purchased 162,041 shares of Company common stock for its treasury at an aggregate cost of \$585,589.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009

7. EARNINGS PER SHARE

The Company computes earnings per share in accordance with SFAS No. 128, Earnings Per Share. SFAS No. 128 provides for the calculation of basic and diluted earnings per share (EPS). Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of the Company. Potential common stock shares consist of shares that may arise from outstanding dilutive common stock warrants and options (the number of which is computed using the “treasury stock method”) and from outstanding convertible debentures (the number of which is computed using the “if converted method”). Diluted EPS considers the potential dilution that could occur if the Company’s outstanding common stock warrants and convertible debentures were converted into common stock that then shared in the Company’s earnings (as adjusted for interest expense, that would no longer occur if the debentures were converted). Net earnings applicable to common stock and the weighted – average number of shares used for basic and diluted earnings per share computations are summarized in the table that follows:

	FOR THE THREE MONTHS		FOR THE SIX MONTHS	
	ENDED MARCH 31, 2009	2008	ENDED MARCH 31, 2009	2008
Basic earnings per share:				
Income from continuing operations	\$ 1,505,587	\$ 2,854,047	\$ 2,633,656	\$ 4,902,359
Loss from discontinued operations, net of income taxes	(666,116)	(248,667)	(1,003,353)	(513,707)
Net income	\$ 839,471	\$ 2,605,380	\$ 1,630,303	\$ 4,388,652
Average number of common shares outstanding	9,313,819	7,561,163	9,339,926	7,183,699
Basic earnings per share - income from continuing operations	\$ 0.16	\$ 0.38	\$ 0.28	\$ 0.68
Basic earnings per share - discontinued operations	\$ (0.07)	\$ (0.03)	\$ (0.11)	\$ (0.07)
Basic earnings per share - net income	\$ 0.09	\$ 0.34	\$ 0.17	\$ 0.61
Diluted earnings per share:				
Income from continuing operations	\$ 1,505,587	\$ 2,854,047	\$ 2,633,656	\$ 4,902,359
Adj. to net earnings from assumed conversion of debentures (1)	-	87,482	-	125,100
Adjusted income from continuing operations	1,505,587	2,941,529	2,633,656	5,027,459
Discontinued operations	(666,116)	(248,667)	(1,003,353)	(513,707)
Adjusted net income	\$ 839,471	\$ 2,692,862	\$ 1,630,303	\$ 4,513,752
Average number of common shares outstanding:				
Common shares outstanding	9,313,819	7,561,163	9,339,926	7,183,699
Potential dilutive shares resulting from exercise of warrants and options (2)	173,709	403,047	203,815	403,092
Potential dilutive shares resulting from conversion of debentures (3)	-	509,287	-	425,954
Total average number of common shares outstanding used for dilution	9,487,528	8,473,497	9,543,741	8,012,745
	\$ 0.16			

Diluted earnings per share - income from continuing operations