

RICKS CABARET INTERNATIONAL INC
Form 10-Q
February 11, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

**“ 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 **76-0458229**
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

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 January 31, 2013, 9,527,344 shares of the Registrant's Common Stock were outstanding.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements regarding plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the Securities and Exchange Commission (“SEC”). Important factors that in our view could cause material adverse effects on our financial condition and results of operations include, but are not limited to, the risks and uncertainties related to our future operational and financial results, competitive factors, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, our dependence on key personnel, the ability to manage operations and the future operational strength of management, and the laws governing the operation of adult entertainment businesses. We undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

As used herein, the “Company,” “we,” “our,” and similar terms include Rick’s Cabaret International, Inc. and its subsidiaries, unless the context indicates otherwise.

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

<u>(in thousands, except per share data)</u>	December 31, 2012 (UNAUDITED)	September 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,871	\$ 5,520
Accounts receivable:		
Trade, net	1,707	1,743
Other, net	311	296
Marketable securities	575	1,059
Inventories	1,399	1,260
Deferred tax asset	3,991	3,635
Prepaid expenses and other current assets	584	1,123
Assets of discontinued operations	64	72
Total current assets	15,502	14,708
Property and equipment, net	90,907	79,940
Other assets:		
Goodwill and indefinite lived intangibles, net	93,598	94,029
Definite lived intangibles, net	1,056	1,177
Other	3,144	2,539
Total other assets	97,798	97,745
Total assets	\$ 204,207	\$ 192,393

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>(in thousands, except per share data)</u>	December 31, 2012 (UNAUDITED)	September 30, 2012
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,609	\$ 1,865
Accrued liabilities	6,251	4,298
Texas patron tax liability	10,739	9,849
Current portion of derivative liabilities	75	75
Current portion of long-term debt	6,361	6,603
Liabilities of discontinued operations	147	163
Total current liabilities	25,182	22,853
Deferred tax liability	23,815	23,963
Other long-term liabilities	844	833
Long-term debt	64,090	56,925
Total liabilities	113,931	104,574
Commitments and contingencies		
Temporary equity - Common stock, subject to put rights 5 and 9 shares, respectively	92	207
PERMANENT STOCKHOLDERS' EQUITY:		
Preferred stock, \$.10 par, 1,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.01 par, 20,000 shares authorized; 9,537 and 9,584 shares issued and outstanding, respectively	95	96
Additional paid-in capital	61,130	61,212
Accumulated other comprehensive income	70	59
Retained earnings	25,584	22,939
Total Rick's permanent stockholders' equity	86,879	84,306
Noncontrolling interests	3,305	3,306
Total permanent stockholders' equity	90,184	87,612
Total liabilities and stockholders' equity	\$ 204,207	\$ 192,393

See accompanying notes to consolidated financial statements.

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

<u>(in thousands, except per share data)</u>	Three Months Ended	
	2012	2011
	December 31, (UNAUDITED)	
Revenues:		
Sales of alcoholic beverages	\$ 10,406	\$ 8,916
Sales of food and merchandise	2,578	1,997
Service revenues	12,655	9,886
Other	1,502	1,220
Total revenues	27,141	22,019
Operating expenses:		
Cost of goods sold	3,386	2,932
Salaries and wages	6,038	4,925
Stock-based compensation	282	8
Other general and administrative:		
Taxes and permits	4,221	3,447
Charge card fees	374	308
Rent	570	703
Legal and professional	641	700
Advertising and marketing	1,109	995
Depreciation and amortization	1,320	1,120
Insurance	499	292
Utilities	489	404
Other	2,278	1,818
Total operating expenses	21,207	17,652
Income from operations	5,934	4,367
Other income (expense):		
Interest income and other	8	2
Interest expense	(1,643)	(973)
Gain on change in fair value of derivative instruments	(1)	98
Income from continuing operations before income taxes	4,298	3,494
Income taxes	1,584	1,208
Income from continuing operations	2,714	2,286
Loss from discontinued operations, net of income taxes	(14)	(48)
Net income	2,700	2,238
Less: net income attributable to noncontrolling interests	(53)	(53)
Net income attributable to Rick's Cabaret International, Inc.	\$ 2,647	\$ 2,185
Basic earnings (loss) per share attributable to Rick's shareholders:		
Income from continuing operations	\$ 0.28	\$ 0.23
Loss from discontinued operations	(0.00)	(0.00)

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Net income	\$ 0.28	\$ 0.23
Diluted earnings (loss) per share attributable to Rick's shareholders:		
Income from continuing operations	\$ 0.28	\$ 0.23
Loss from discontinued operations	(0.00)	(0.00)
Net income	\$ 0.28	\$ 0.23
Weighted average number of common shares outstanding:		
Basic	9,575	9,685
Diluted	9,833	9,687

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)	Three Months Ended December 31, 2012 2011 (UNAUDITED)	
Net income to common stockholders	\$2,647	\$2,185
Other comprehensive income:		
Unrealized holding gain on securities available for sale	11	15
Comprehensive income to common stockholders	\$2,658	\$2,200

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RICK'S CABARET INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, except per share data)

ENDED DECEMBER 31,
2012 2011
(UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 2,700	\$ 2,238
Loss from discontinued operations	14	48
Income from continuing operations	2,714	2,286
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,320	1,120
Deferred taxes	(109)	1,129
Amortization of note discount	45	36
(Gain) loss on change in fair value of derivative instruments	1	(98)
Deferred rents	10	12
Stock compensation expense	282	8
Changes in operating assets and liabilities:		
Accounts receivable	15	246
Inventories	(139)	(107)
Prepaid expenses and other assets	(86)	(10)
Accounts payable and accrued liabilities	2,195	603
Cash provided by operating activities of continuing operations	6,248	5,225
Cash provided by (used in) operating activities of discontinued operations	(24)	(10)
Net cash provided by operating activities	6,224	5,215

CASH FLOWS FROM INVESTING ACTIVITIES:

Additions to property and equipment	(2,438)	(1,177)
Proceeds from sale of marketable securities	500	-
Acquisition of businesses, net of cash acquired	-	(380)
Cash used in investing activities of continuing operations	(1,938)	(1,557)

CASH FLOWS FROM FINANCING ACTIVITIES:

Purchase of put options and payments on derivative instrument	(74)	(554)
Payments on long-term debt	(2,402)	(1,394)
Purchase of treasury stock	(405)	(417)
Distribution to minority interests	(54)	(54)
Cash used in financing activities of continuing operations	(2,935)	(2,419)

NET INCREASE IN CASH AND CASH EQUIVALENTS

NET INCREASE IN CASH AND CASH EQUIVALENTS	1,351	1,239
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,520	9,698
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 6,871	\$ 10,937
CASH PAID DURING PERIOD FOR:		
Interest	\$ 1,565	\$ 861
Income taxes	\$ -	\$ -

See accompanying notes to consolidated financial statements.

Non-cash transactions:

During the quarter ended December 31, 2012, the Company incurred \$9.3 million in debt in connection with the acquisition of real estate.

During the quarters ended December 31, 2012 and 2011, the Company recognized unrealized holding gains on marketable securities held for sale of approximately \$11,000 and \$15,000, respectively.

During the quarter ended December 31, 2012, the Company purchased and retired 50,733 common treasury shares. The cost of these shares was \$405,459.

During the quarter ended December 31, 2011, the Company purchased and retired 60,240 common treasury shares. The cost of these shares was \$417,063.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated 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 consolidated financial statements for the year ended September 30, 2012 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. The interim unaudited consolidated financial statements should be read in conjunction with those consolidated financial statements included in the Form 10-K. 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, 2012 are not necessarily indicative of the results that may be expected for the year ending September 30, 2013.

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

In June 2011 new guidance was issued regarding the disclosure of the components of comprehensive income. This guidance gives the entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In either option, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for interim and annual periods beginning after December 15, 2011 and is required to be adopted retrospectively. The Company has adopted this guidance beginning with this Form 10-Q for the quarter ending December 31, 2012.

In July 2012 new guidance was issued regarding the impairment testing related to indefinite-lived intangible assets. This guidance permits an entity to make a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. If an entity concludes, based on an evaluation of all relevant qualitative factors, that it is not more likely than not that the fair value of an indefinite-lived intangible

asset is less than its carrying amount, it will not be required to perform the quantitative impairment for that asset. This guidance is effective for interim and annual periods beginning after September 15, 2012. The Company has early-adopted this guidance beginning with the Form 10-K for the year ended September 30, 2012. The implementation of this guidance did not have a material impact on the Company's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Following are certain significant accounting principles and disclosures.

Discontinued Operations

In March 2011, the Company made the decision to sell its Las Vegas location and, in April 2011, sharply reduced its operations in order to eliminate losses as it sought a buyer for the club. The Company believes that it has done everything possible to make this location viable since its acquisition in 2008 and now believes it is in its shareholders' best interests not to continue these efforts. The club was shuttered and the landlord took over the property in June 2011. Therefore, this club is recognized as a discontinued operation in the accompanying consolidated financial statements.

The Company has sold a controlling portion of the membership interest in the entity that previously operated its Rick's Cabaret in Austin, Texas. Accordingly, the Company has deconsolidated the subsidiary and carries it as an equity-method investment. The club is recognized as a discontinued operation in the accompanying consolidated financial statements.

The Company closed its Divas Latinas club in Houston during September 2010. This club is recognized in discontinued operations.

Fair Value Accounting

In December 2006, the FASB issued SFAS No. 157 (ASC 820), *Fair Value Measurements*. SFAS No. 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 No. 157 is effective for fiscal years beginning after November 15, 2007, which required the Company to adopt these provisions in fiscal 2009. For nonfinancial assets and liabilities, SFAS No. 157 is effective for fiscal years beginning after November 15, 2008, which required the Company to adopt these provisions in fiscal 2010.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

(UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company's derivative liabilities have been measured principally utilizing Level 2 inputs.

The Company classifies its marketable securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, if any, on available-for-sale securities are excluded from income and are reported as accumulated other comprehensive income in stockholders' equity. Realized gains and losses from securities classified as available for-sale are included in income. The Company measures the fair value of its marketable securities based on quoted prices for identical securities in active markets, or Level 1 inputs. As of December 31, 2012, available-for-sale securities consisted of the following:

(in thousands)	Cost	Gross Unrealized	Fair
Available for Sale	Basis	Gains	Value
Tax-Advantaged Bond Fund	\$ 500	\$ 75	\$ 575

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In accordance with ASC Topic 320, *Investments — Debt and Equity Securities*, the Company reviews its marketable securities to determine whether a decline in fair value of a security below the cost basis is other than temporary. Should the decline be considered other than temporary, the Company writes down the cost basis of the security and include the loss in current earnings as opposed to an unrealized holding loss. No losses for other than temporary impairments in the Company's marketable securities portfolio were recognized during the quarter ended December 31, 2012.

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

(in thousands)	Carrying			
December 31, 2012	Amount	Level 1	Level 2	Level 3
Marketable securities	\$ 575	\$ 575	\$ -	\$ -
Derivative liability	\$ 75	\$ -	\$ 75	\$ -

(in thousands)