

RICKS CABARET INTERNATIONAL INC
Form 10-Q
February 10, 2014

**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, 2013

**“ 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 x 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 x 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 x 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 x

As of January 31, 2014, 9,640,180 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 affects 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.
TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements	3
	Consolidated Balance Sheets as of December 31, 2013 and September 30, 2013	3
	Consolidated Statements of Income for the three months ended December 31, 2013 and 2012	5
	Consolidated Statements of Comprehensive Income for the three months ended December 31, 2013 and 2012	6
	Consolidated Statements of Cash Flows for the three months ended December 31, 2013 and 2012	7
	Notes to Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	27
Item 4.	Controls and Procedures	27
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 6.	Exhibits	28
	Signatures	30

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

(in thousands, except per share data)	December 31, 2013 (UNAUDITED)	September 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,252	\$ 10,656
Accounts receivable:		
Trade, net	1,136	1,382
Other, net	543	319
Marketable securities	555	555
Inventories	1,504	1,462
Deferred tax asset	4,801	4,618
Prepaid expenses and other current assets	3,466	1,668
Assets of discontinued operations	17	21
Total current assets	22,274	20,681
Property and equipment, net	112,965	98,611
Other assets:		
Goodwill	43,987	43,987
Indefinite lived intangibles, net	55,231	54,966
Definite lived intangibles, net	976	1,065
Other	3,451	3,790
Total other assets	103,645	103,808
Total assets	\$ 238,884	\$ 223,100

See accompanying notes to consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

(in thousands, except per share data)	December 31, 2013 (UNAUDITED)	September 30, 2013
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,756	\$ 1,804
Accrued liabilities	7,164	5,229
Texas patron tax liability	13,773	13,035
Current portion of long-term debt	12,472	8,830
Liabilities of discontinued operations	47	48
Total current liabilities	35,212	28,946
Deferred tax liability	27,453	26,354
Other long-term liabilities	947	956
Long-term debt	75,173	69,762
Total liabilities	138,785	126,018
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.10 par, 1,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.01 par, 20,000 shares authorized; 9,561 and 9,504 shares issued and outstanding, respectively	96	95
Additional paid-in capital	62,083	61,506
Accumulated other comprehensive income	50	50
Retained earnings	34,535	32,130
Total Rick's permanent stockholders' equity	96,764	93,781
Noncontrolling interests	3,335	3,301
Total permanent stockholders' equity	100,099	97,082
Total liabilities and stockholders' equity	\$ 238,884	\$ 223,100

See accompanying notes to consolidated financial statements.

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

(in thousands, except per share data)	Three Months Ended December 31, 2013	2012
	(UNAUDITED)	
Revenues:		
Sales of alcoholic beverages	\$ 11,689	\$ 10,406
Sales of food and merchandise	3,423	2,578
Service revenues	12,730	12,655
Other	1,581	1,502
Total revenues	29,423	27,141
Operating expenses:		
Cost of goods sold	3,747	3,386
Salaries and wages	6,577	6,038
Stock-based compensation	3	282
Other general and administrative:		
Taxes and permits	4,416	4,221
Charge card fees	428	374
Rent	1,228	570
Legal and professional	908	641
Advertising and marketing	1,285	1,109
Depreciation and amortization	1,390	1,320
Insurance	799	499
Utilities	595	489
Other	2,431	2,278
Total operating expenses	23,807	21,207
Income from operations	5,616	5,934
Other income (expense):		
Interest income and other	77	8
Interest expense	(2,012)	(1,643)
Gain on change in fair value of derivative instruments	-	(1)
Income from continuing operations before income taxes	3,681	4,298
Income taxes	1,323	1,584
Income from continuing operations	2,358	2,714
Loss from discontinued operations, net of income taxes	(1)	(14)
Net income	2,357	2,700
Less: (net income) loss attributable to noncontrolling interests	47	(53)
Net income attributable to Rick's Cabaret International, Inc.	\$ 2,404	\$ 2,647
Basic earnings (loss) per share attributable to Rick's shareholders:		
Income from continuing operations	\$ 0.25	\$ 0.28
Loss from discontinued operations	(0.00)	(0.00)
Net income	\$ 0.25	\$ 0.28
Diluted earnings (loss) per share attributable to Rick's shareholders:		
Income from continuing operations	\$ 0.25	\$ 0.28
Loss from discontinued operations	(0.00)	(0.00)

Edgar Filing: RICKS CABARET INTERNATIONAL INC - Form 10-Q

Net income	\$ 0.25	\$ 0.28
Weighted average number of common shares outstanding:		
Basic	9,546	9,575
Diluted	9,855	9,833

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,	
	2013	2012
	(UNAUDITED)	
Net income	\$ 2,357	\$ 2,700
Other comprehensive income:		
Unrealized holding gain (loss) on securities available for sale	-	11
Comprehensive income to common stockholders	2,357	2,711
Less: (net income) loss attributable to noncontrolling interests	47	(53)
Comprehensive income to common stockholders	\$ 2,404	\$ 2,658

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

(in thousands, except per share data)	Three Months Ended ENDED DECEMBER 31,	
	2013	2012
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,357	\$ 2,700
Loss from discontinued operations	1	14
Income from continuing operations	2,358	2,714
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,390	1,320
Deferred taxes	890	(109)
Amortization of note discount	22	45
(Gain) loss on change in fair value of derivative instruments	-	1
Deferred rents	(9)	10
Stock compensation expense	3	282
Changes in operating assets and liabilities:		
Accounts receivable	22	15
Inventories	(42)	(139)
Prepaid expenses and other assets	(1,456)	(86)
Accounts payable and accrued liabilities	2,649	2,195
Cash provided by operating activities of continuing operations	5,827	6,248
Cash provided by (used in) operating activities of discontinued operations	3	(24)
Net cash provided by operating activities	5,830	6,224
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(5,613)	(2,438)
Proceeds from sale of marketable securities	-	500
Acquisition of development rights in New York building	(5,325)	-
Acquisition of businesses, net of cash acquired	(500)	-
Cash used in investing activities of continuing operations	(11,438)	(1,938)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of put options and payments on derivative instrument	-	(74)
Proceeds from long-term debt	7,025	-
Payments on long-term debt	(1,767)	(2,402)
Purchase of treasury stock	-	(405)
Distribution to minority interests	(54)	(54)
Cash used in financing activities of continuing operations	5,204	(2,935)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(404)	1,351
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,656	5,520
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 10,252	\$ 6,871
CASH PAID DURING PERIOD FOR:		
Interest	\$ 1,734	\$ 1,565

Income taxes	\$	475	\$	-
--------------	----	-----	----	---

See accompanying notes to consolidated financial statements.

Non-cash transactions:

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

During the quarters ended December 31, 2013 and 2012, the Company recognized unrealized holding gains on marketable securities held for sale of approximately zero and \$11,000, 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, 2013, the Company acquired \$4.3 million in assets with seller-financed debt amounting to \$3.6 million.

During the quarter ended December 31, 2013, the Company issued 57,500 shares for debt and accrued interest aggregating \$575,000.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013
(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 ("GAAP") 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, 2013 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, 2013 are not necessarily indicative of the results that may be expected for the year ending September 30, 2014.

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

In 2013 new guidance was issued regarding the disclosure about reclassification out of accumulated other comprehensive income. This guidance specifies requirements for where amounts reclassified out of accumulated other comprehensive should be presented in the financial statements and related notes to the financial statements. This guidance is effective for annual periods beginning after December 15, 2012 including interim periods within those years and is required to be adopted prospectively. The Company has adopted this guidance beginning with its Form 10-Q for the quarter ending December 31, 2013.

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 the Company sought a buyer for the property. 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.

In August 2011, the Company sold a controlling portion of the membership interest in the entity that previously operated its Rick's Cabaret in Austin, Texas. Accordingly, the Company deconsolidated the subsidiary and carried it as an equity-method investment. The Company had not received any cash flows from the entity since the sale and does not anticipate any in the near future. A new nightclub has not been opened in the space since the Company sold its controlling interest. In June 2013, the Company sold the remaining portion of its membership interest in the entity to a third party and recognized a gain of approximately \$2,300 on the sale. Accordingly, the club is recognized as a discontinued operation in the accompanying consolidated financial statements.

Fair Value Accounting

GAAP 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.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013
(UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 other comprehensive income in the Statement of Other Comprehensive Income. Realized gains and losses from securities classified as available for-sale are included in net 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, 2013, available-for-sale securities consisted of the following:

(in thousands)	Cost Basis	Gross Unrealized Gains	Fair Value
Available for Sale			
Tax-Advantaged Bond Fund	\$ 505	\$ 50	\$ 555

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 includes 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, 2013.

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

(in thousands)	Carrying Amount	Level 1	Level 2	Level 3
December 31, 2013				
Marketable securities	\$ 555	\$ 555	\$ -	\$ -

(in thousands)	Carrying Amount	Level 1	Level 2	Level 3
September 30, 2013				
Marketable securities	\$ 555	\$ 555	\$ -	\$ -

4. STOCK OPTIONS AND STOCK-BASED EMPLOYEE COMPENSATION

Employee and Director Stock Option Plans

In 1995, the Company adopted the 1995 Stock Option Plan (the "1995 Plan") for employees and directors. In August 1999, the Company adopted the 1999 Stock Option Plan (the "1999 Plan") and in 2010, the Company's Board of Directors approved the 2010 Stock Option Plan (the "2010 Plan") (collectively, "the Plans"). The 2010 Plan was approved by the shareholders of the Company at the 2011 Annual Meeting of Shareholders. The options granted under the Plans may be either incentive stock options, or non-qualified options. The Plans are 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 Plans.

The compensation costs recognized for the three months ended December 31, 2013 and 2012 were \$2,922 and \$281,745, respectively. There were no stock option grants or exercises for the three month periods ended December 31, 2013 and 2012.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013
(UNAUDITED)

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

Stock Option Activity

The following is a summary of all stock option transactions for the three months ended December 31, 2013:

(in thousands, except for per share and year information)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2013	765	\$ 8.41		
Granted	-	-		
Cancelled or expired	-	-		
Exercised	-	-		
Outstanding as of December 31, 2013	765	\$ 8.41	0.58	\$ 2,424
Options exercisable as of December 31, 2013	755	\$ 8.41	0.57	\$ 2,116

5. GOODWILL AND OTHER INTANGIBLES

Following are the changes in the carrying amounts of goodwill and licenses for the three months ended December 31, 2013 and 2012:

(in thousands)	2013 Licenses	Goodwill	2012 Licenses	Goodwill
Beginning balance	\$ 54,966	\$ 43,987	\$ 50,608	\$ 43,421
Intangibles acquired	265	-	-	-
Other	-	-	-	(431)
Ending balance	\$ 55,231	\$ 43,987	\$ 50,608	\$ 42,990

6. COMMON STOCK

During the quarter ended December 31, 2012, the Company purchased 50,733 shares of Company common stock for its treasury at an aggregate cost of \$405,459. These shares have been retired.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013
(UNAUDITED)

7. EARNINGS PER SHARE (EPS)

The Company computes earnings per share in accordance with Accounting Standards Codification ("ASC") 260, *Earnings Per Share*. 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 options, 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).

(in thousands, except per share data)

	FOR THE QUARTER ENDED DECEMBER 31,	
	2013	2012
Basic earnings per share:		
Income from continuing operations attributable to Rick's shareholders	\$ 2,405	\$ 2,661
Loss from discontinued operations, net of income taxes	(1)	(14)
Net income attributable to Rick's shareholders	\$ 2,404	\$ 2,647
Average number of common shares outstanding	9,546	9,575
Basic earnings (loss) per share:		
Income (loss) from continuing operations attributable to Rick's shareholders	\$ 0.25	\$ 0.28
Discontinued operations	\$ (0.00)	\$ (0.00)
Net income (loss) attributable to Rick's shareholders	\$ 0.25	\$ 0.28
Diluted earnings per share:		
Income (loss) from continuing operations attributable to Rick's shareholders	\$ 2,405	\$ 2,661
Adjustment. to net earnings from assumed conversion of debentures (2)	21	65
Adjusted income (loss) from continuing operations	2,426	2,726
Discontinued operations	(1)	(14)
Adjusted net income (loss) attributable to Rick's shareholders	\$ 2,425	\$ 2,712
Average number of common shares outstanding:		
Common shares outstanding	9,546	9,575
Potential dilutive shares resulting from exercise of warrants and options (1)	171	4
Potential dilutive shares resulting from conversion of debentures (2)	138	254
Total average number of common shares outstanding used for dilution	9,855	9,833
Diluted earnings (loss) per share:		
Income (loss) from continuing operations attributable to Rick's shareholders	\$ 0.25	\$ 0.28
Discontinued operations	\$ (0.00)	\$ (0.00)
Net income (loss) attributable to Rick's shareholders	\$ 0.25	\$ 0.28

(1) All outstanding warrants and options were considered for the EPS computation. Potential dilutive options and warrants of 726,792 and 864,081 for the three months ended December 31, 2013 and 2012, respectively have been excluded from earnings per share due to being anti-dilutive.

(2) Convertible debentures (principal and accrued interest) outstanding at December 31, 2013 and 2012 totaling \$11.9 million and \$2.6 million, respectively, were convertible into common stock at a price of \$10.00, \$10.25 and \$12.50 per share in 2013 and \$10.00 and \$10.25 per share in 2012.

*EPS may not foot due to rounding.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013
(UNAUDITED)

8. ACQUISITIONS

Quarter Ended December 31, 2013

A subsidiary of the Company closed a transaction involving the air rights above the Company's 33rd Street club in Manhattan, New York in October 2013. The subsidiary entered into a contract to buy the land and building for \$10 million at any time in the next five years. Concurrent with the building transaction, a third party (the "Third Party Purchaser") purchased the balance of the air rights of the property that are not subject to the Option Agreement. The purchase price for these air rights was \$13,000,000, of which the Company's subsidiary contributed \$5,200,000 in connection with the overall business transaction. The transactions are part of a previously announced transaction under which the Company agreed to purchase the land and building for \$23 million. The new agreement also amends the lease for the three-story building at 50 West 33rd Street to \$100,000 per month for the next five years rather than the \$180,000 per month called for in the original agreement.

In October 2013, the Company purchased 49 percent of a corporation that operates the Dallas club "PT's Platinum" and also acquired the building and personal property. Total cost of the transaction was \$500,000. Due to the Company having effective control of the business, this subsidiary is being consolidated in the Company's consolidated financial statements, effective as of the date of the purchase.

The following information summarizes the allocation of fair values assigned to the assets at the purchase date.

Buildings	\$ 350
Equipment and land	20
SOB license	265
Minority interest	(135)
Net assets	\$ 500

Quarter Ended December 31, 2012

In connection with the acquisition of the Foster Clubs, as explained in Note M in the Company's Form 10-K for the year ended September 30, 2012, the Company's wholly owned subsidiary, Jaguars Holdings, Inc. ("JHI"), entered into a Commercial Contract (the "Real Estate Agreement"), which agreement provided for JHI to purchase the real estate where the Foster Clubs are located. The transactions contemplated by the Real Estate Agreement closed on October 16, 2012. The purchase price of the real estate was \$10.1 million (discounted to \$9.6 million as explained below) and was paid with \$350,000 in cash, \$9.1 million in mortgage notes, including the assumption of approximately \$4.2 million in notes, and an agreement to make a one-time payment of \$650,000 in twelve years that bears no interest. The note bears interest at the rate of 9.5%, is payable in 143 equal monthly installments and is secured by the real estate properties. The Company has recorded a debt discount of \$431,252 related to the one-time payment of \$650,000. The Company reduced previously recognized goodwill because the purchase of the Foster Clubs' operations and real estate were considered to be one purchase transaction with multiple closings and were included in the same purchase agreement.

The following information summarizes the allocation of fair values assigned to the assets at the purchase date.

Buildings and land	\$ 10,066
--------------------	-----------

Goodwill	(431)
Net assets	\$ 9,635

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013
(UNAUDITED)

9. INCOME TAXES

Income tax expense on continuing operations for the periods presented differs from the “expected” federal income tax expense computed by applying the U.S. federal statutory rate of 34% to earnings before income taxes for the three months ended December 31, as a result of the following:

(in thousands)	2013	2012
Computed expected tax expense	\$ 1,252	\$ 1,461
State income taxes	53	36
Stock option disqualifying dispositions and other permanent differences	18	87
Total income tax expense	\$ 1,323	\$ 1,584

Included in the Company’s deferred tax liabilities at December 31, 2013 is approximately \$17.2 million representing the tax effect of indefinite lived intangible assets from club acquisitions which are not deductible for tax purposes. These deferred tax liabilities will remain in the Company’s balance sheet until the related clubs are sold.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the quarters ended December 31, 2013 and 2012, the Company recognized no interest and penalties for unrecognized tax benefits. The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. The last three years remain open to tax examination.

10. LONG-TERM DEBT

On October 15, 2013, the Company sold to certain investors (i) 9% Convertible Debentures with an aggregate principal amount of \$4,525,000 (the “Debentures”), under the terms and conditions set forth in the Debentures, and (ii) warrants to purchase a total of 72,400 shares of the Company’s common stock (the “Warrants”), under the terms and conditions set forth in the Warrants. Each of the Debentures has a term of three years, is convertible into shares of our common stock at a conversion price of \$12.50 per share (subject to adjustment), and has an annual interest rate of 9%, with one initial payment of interest only due April 15, 2014. Thereafter, the principal amount is payable in 10 equal quarterly principal payments, which amounts to a total of \$452,500, plus accrued and unpaid interest. Six months after the issue date of the Debentures, we have the right to redeem the Debentures if the Company’s common stock has a closing price of \$16.25 (subject to adjustment) for 20 consecutive trading days. The Warrants have an exercise price of \$12.50 per share (subject to adjustment) and expire on October 15, 2016. In the event there is an effective registration statement registering the shares of common stock underlying the Warrants, we have the right to require exercise of the Warrants if our common stock has a closing price of \$16.25 (subject to adjustment) for 20 consecutive trading days. The Company sold the Debentures and Warrants to the investors in a private transaction and received consideration of \$4,525,000. An adviser to the Company received compensation in the amount of \$271,500 in connection with advising the Company regarding the sale of the Debentures and Warrants.

The fair value of the warrants was estimated to be \$105,318 in accordance with FASB ASC 820, *Fair Value Measurements*, using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	28.4	%
Expected life	1.5	years
Expected dividend yield	-	

Risk free rate	..33	%
----------------	------	---

The cost of the warrants has been recognized as a discount on the related debt and was amortized over the life of the debt.

In October 2013 the Company borrowed \$ 2.5 million from an individual. The note is collateralized by a second lien on the Company's Miami nightclub, bears interest at 13% and interest only is payable monthly until the principal matures in 36 months.

In December 2013 the Company purchased an aircraft for \$4.3 million which was partially financed by a \$3.6 million note to a bank. The note is payable \$40,654 monthly, including interest at 7.45% until February 2017 when the entire principal balance becomes due.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013
(UNAUDITED)

11. COMMITMENTS AND CONTINGENCIES

Legal Matters

Beginning January 1, 2008, the Company's Texas clubs became subject to a new state law requiring each club to collect and pay a \$5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association ("TEA"), an organization to which the Company is a member, alleging the fee amounts to be an unconstitutional tax. On March 28, 2008, a State District Court Judge in Travis County, Texas ruled that the new state law violates the First Amendment to the United States Constitution and is therefore invalid. The judge's order enjoined the State from collecting or assessing the tax. The State appealed the Court's ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State gave notice of its right to collect the tax pending the outcome of its appeal but took no affirmative action to enforce that right. On June 5, 2009, the Court of Appeals for the Third District (Austin) affirmed the District Court's judgment that the Sexually Oriented Business ("S.O.B.") Fee violated the First Amendment to the U.S. Constitution but on August 26, 2011, the Texas Supreme Court reversed the judgment of the Court of Appeals, ruling that the SOB Fee does not violate the First Amendment to the U.S. Constitution, and remanded the case to the District Court to determine whether the fee violates the Texas Constitution.

TEA appealed the Texas Supreme Court's decision to the U.S. Supreme Court (regarding the constitutionality of the fee under the First Amendment of the U.S. Constitution), but the U.S. Supreme Court denied the appeal on January 23, 2012. Subsequently, the case was remanded to the District Court for consideration of the remaining issues raised by TEA. On June 28, 2012, the District Court in Travis County held a hearing on TEA's Texas Constitutional claims and on July 9 entered an order finding that the tax was a constitutional Occupations Tax. The Court denied the remainder of TEA's constitutional claims. TEA is now in the process of appealing this new decision to the Texas Third Court of Appeals.

The Company has not made any payments of these taxes since the first quarter of 2009 and plans not to make any such payments while the case is pending in the courts. However, the Company will continue to accrue and expense the potential tax liability on its financial statements, so any ultimate negative ruling will not have any effect on its consolidated income statement and will only affect the consolidated balance sheet. If the final decision of the courts is ultimately in the Company's favor, as it believes it will be, then the Company will record a one-time gain of the entire amount previously expensed.

Since the inception of the tax, the Company has paid more than \$2 million to the State of Texas under protest for all four quarters of 2008 and the first quarter of 2009, expensing it in the consolidated financial statements (except for two locations in Dallas where the taxes have not been paid, but the Company is accruing and expensing the liability). For all subsequent quarters, as a result of the Third Court's 2009 decision, the Company has accrued the tax, but not paid the State. Accordingly, as of December 31, 2013, the Company has approximately \$13.8 million in accrued liabilities for this tax. Patron tax expense amounted to approximately \$738,000 and \$891,000 for the quarters ended December 31, 2013 and 2012, respectively. The Company's Texas clubs have filed a separate lawsuit against the State in which the Company raises additional challenges to the statute imposing the fee or tax, demanding repayment of the taxes the Company has paid under this statute. The courts have not yet addressed these additional claims. If the Company is successful in the remaining litigation, the amount the Company has paid under protest should be repaid or applied to any future, constitutional admission tax or other Texas state tax liabilities.

The Company's subsidiary that operated the club in Las Vegas has recently been audited by the Department of Taxation of the State of Nevada for sales and other taxes. The audit period was from the date of opening in September 2008 through July 31, 2010. As a result of the audit, the Department of Taxation contends that the Company's Las Vegas subsidiary owes approximately \$2.1 million, including penalties and interest, for Las Vegas Live Entertainment Taxes. The Company does not believe it is subject to the Live Entertainment Tax and is protesting the audit results. Accordingly, the Company has not accrued the contingent liability in the accompanying consolidated financial statements. It is unknown at this time whether the resolution of this uncertainty will have a material effect on the Company's operations.

Rick's Cabaret International, Inc. ("RCII") and subsidiaries RCI NY, Inc. ("RCI NY") and Peregrine Enterprises, Inc. ("Peregrine") have been defendants in a federal court action, pending since March 30, 2009, in the Southern District of New York relating to claims under the Fair Labor Standards Act and New York's wage and hour laws. While Plaintiffs do not specifically allege the amount of monetary relief sought in their Complaint, Plaintiffs have alleged that they are seeking judgment equal to any unpaid wages, liquidated damages, interest, costs and attorneys' fees pursuant to the FLSA and New York Labor Law. RCII, RCI NY and Peregrine deny liability in this matter, are vigorously defending the allegations and have asserted counterclaims and affirmative defenses for offset and unjust enrichment. Discovery is now complete and on September 10, 2013, the court ruled on the parties' motions for summary judgment. The court granted summary judgment in favor of the Plaintiffs on their causes of action for minimum wage and held that entertainers at Rick's NY are employees, that Peregrine was an employer of the Plaintiffs and that under federal law, Rick's NY's statutory duty to pay minimum wages was not satisfied by the performance fees Plaintiffs' received. The court has not yet ruled on whether performance fees can offset minimum wages under New York state law. The court denied the Plaintiffs' attempt to hold RCII or RCI NY liable as joint employers with Peregrine and the issue of whether RCII and RCI NY are also employers will be determined at a trial. Ultimately, RCII, RCI NY and Peregrine intend to appeal the summary judgment ruling. The defendants also intend to move to decertify the Rule 23 class and the FLSA collective.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013
(UNAUDITED)

11. COMMITMENTS AND CONTINGENCIES- continued

The Company and its subsidiaries were insured under a liability policy issued by Indemnity Insurance Corporation, RRG ("IIC") through October 25, 2013 the Company switched to a different insurer on that date. By order dated November 7, 2013, the Court of Chancery of the State of Delaware declared IIC impaired, insolvent and in an unsafe condition and placed IIC under the supervision of the Insurance Commissioner of the State of Delaware ("Commissioner") in her capacity as receiver. The order empowers the Commissioner to rehabilitate IIC through a variety of means, including gathering assets and marshaling those assets as necessary. Further, the order has stayed or abated pending lawsuits involving IIC as the insurer until May 6, 2014. As a result, it is unclear to what degree, if any, the Company and its subsidiaries will have insurance coverage under the liability policy with IIC until after the rehabilitation plan is completed and the stay is lifted on May 6, 2014. Currently, there are multiple civil lawsuits pending or threatened against the Company and its subsidiaries. There is also the potential that other lawsuits of which the Company currently is unaware could be filed against the Company for incidents that occurred before October 25, 2013. There can be no assurances the Company will have adequate insurance coverage for any of these lawsuits. It is unknown at this time what effect, if any, this uncertainty will have on the Company. The Company has obtained general liability coverage from another insurer, effective October 25, 2013 which will cover any claims arising from actions after that date.

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

The following discussion should be read in conjunction with our consolidated financial statements and related notes thereto included in this quarterly report and the audited consolidated financial statements and related notes included in our Form 10-K as of September 30, 2012.

GENERAL

Rick's Cabaret International, Inc. was incorporated in the State of Texas in 1994. Through our subsidiaries, as of January 31, 2014, we operate a total of forty-two establishments that offer live adult entertainment, and/or restaurant and bar operations. We have one reportable segment, nightclubs.

SCHEDULE OF CLUBS

Name of Nightclub	Date Acquired/Opened
Club Onyx, Houston, TX	1995
Rick's Cabaret, Minneapolis, MN	1998
XTC Cabaret, Austin, TX	1998
XTC Cabaret, San Antonio, TX	1998
XTC Cabaret North, Houston, TX	2004
Rick's Cabaret, New York City, NY	2005
Club Onyx, Charlotte, NC	2005
Rick's Cabaret, San Antonio, TX	2006
XTC Cabaret South, South Houston, TX	2006
Rick's Cabaret, Fort Worth, TX	2007
Tootsie's Cabaret, Miami Gardens, FL	2008
XTC Cabaret, Dallas, TX	2008
Club Onyx, Dallas, TX	2008
Club Onyx, Philadelphia, PA	2008
Rick's Cabaret, North Austin, TX	2009
Cabaret North, Fort Worth, TX	2009
Cabaret East, Fort Worth, TX	2010
XTC Cabaret, Fort Worth, TX	2010
Rick's Cabaret DFW, Fort Worth, TX	2011
Downtown Cabaret, Minneapolis, MN	2011
Rick's Cabaret, Indianapolis, IN	2011
Temptations, Aledo, TX	2011
Silver City Cabaret, Dallas, TX	2012
Jaguars Club, Odessa, TX	2012
Jaguars Club, Phoenix, AZ	2012
Jaguars Club, Lubbock, TX	2012
Jaguars Club, Longview, TX	2012
Jaguars Club, Tye, TX	2012
Jaguars Club, Edinburg, TX	2012
Jaguars Club, El Paso, TX	2012
Jaguars Club, Harlingen, TX	2012
Rick's Cabaret, Lubbock, TX	2012
Jaguar's Club, Beaumont, TX	2012
Rick's Cabaret, Odessa, TX (1)	2012

Edgar Filing: RICKS CABARET INTERNATIONAL INC - Form 10-Q

Vee Lounge, Fort Worth, TX	2013
Bombshells, Dallas, TX	2013
Ricky Bobby Sport Saloon, Fort Worth, TX	2013
Temptations, Sulphur, LA	2013
Temptations, Beaumont, TX	2013
Vivid Cabaret, Los Angeles, CA	2013
The Black Orchid, Dallas, TX	2013
Vivid Cabaret, New York, NY	2014
Bombshells, Beaumont, TX (1)	2014
Jaguars, Houston, TX	2013
Bombshells, Austin, TX (1)	2014
Bombshells, Webster, TX (1)	2014
Bombshells, Fuqua (Houston) TX (1)	2014

(1) To be opened in Calendar 2014.

As noted above, we have the following nightclubs/restaurant under construction or contract:

- Vivid Cabaret in New York opened in January 2014.
- Rick's Cabaret Odessa, Texas under construction opening in spring of 2014.
- Bombshells, Beaumont to be opened in Summer 2014.
- Bombshells, Austin to be opened in Spring 2014.
- Bombshells, Webster to be opened in January 2014.
- Bombshells, Fuqua (Houston) to be opened in Summer 2014.

Our website address is www.Ricks.com . We also have an investors' website www.ricksinvestor.com . Upon written request, we make available free of charge our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC under the Securities Exchange Act of 1934, as amended. Information contained in the website shall not be construed as part of this Form 10-K.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP consists of a set of standards issued by the FASB and other authoritative bodies in the form of FASB Statements, Interpretations, FASB Staff Positions, Emerging Issues Task Force consensuses and American Institute of Certified Public Accountants Statements of Position, among others. The preparation of these consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate these estimates, including investment impairment. These estimates are based on management's historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation and amortization are made using straight-line rates over the estimated useful lives of the related assets and the shorter of useful lives or terms of the applicable leases for leasehold improvements. Buildings have estimated useful lives ranging from 29 to 40 years. Furniture, equipment and leasehold improvements have estimated useful lives between five and 40 years. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are charged or credited in the accompanying consolidated statement of income of the respective period.

Goodwill and Intangible Assets

FASB ASC 350, *Intangibles - Goodwill and Other* addresses the accounting for goodwill and other intangible assets. Under FASB ASC 350, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed on an annual basis for impairment. Definite lived intangible assets are amortized on a straight-line basis over their estimated lives. Fully amortized assets are written-off against accumulated amortization.

Impairment of Long-Lived Assets

In accordance with ASC 205, long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired in accordance with ASC 350. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

For goodwill, the impairment determination is made at the reporting unit level. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

None of our reporting units were at risk of failing step one of the impairment test (i.e. that fair value was not substantially in excess of carrying value) in either year.

Fair Value of Financial Instruments

The Company calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of short and long-term debt also approximates fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

Revenue Recognition

The Company recognizes revenue from the sale of alcoholic beverages, food and merchandise, other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

Revenues from the sale of magazines and advertising content are recognized when the issue is published and shipped. Revenues and external expenses related to the Company's annual Expo convention are recognized upon the completion of the convention in August.

Income Taxes

Deferred income taxes are determined using the liability method in accordance with FASB ASC 740, *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

FASB ASC 740 creates a single model to address accounting for uncertainty in tax positions by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FASB ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. There are no unrecognized tax benefits to disclose in the notes to the consolidated financial statements.

Put Options

In certain situations, the Company has issued restricted common shares as partial consideration for acquisitions of certain businesses or assets. Pursuant to the terms and conditions of the governing acquisition agreements, the holder of such shares has the right, but not the obligation, to put a fixed number of the shares on a monthly basis back to the Company at a fixed price per share. The Company may elect during any given month to either buy the monthly shares or, if management elects not to do so, the holder can sell the monthly shares in the open market, and any deficiency between the amount which the holder receives from the sale of the monthly shares and the agreed fixed price of the

shares will be paid by the Company. The Company has accounted for these shares in accordance with the guidance established by FASB ASC 480, *Distinguishing Liabilities From Equity*, as a reclassification of the value of the shares from permanent to temporary equity. As the shares become due, the Company transfers the value of the shares back to permanent equity, less any amount paid to the holder. Also see “Derivative Financial Instruments” above. We finished liquidating the put options during the quarter ended March 31, 2013 and we have no more obligations under the put options.

Earnings (Loss) Per Common Share

The Company computes earnings (loss) per share in accordance with FASB ASC 260, *Earnings Per Share*. FASB ASC 260 provides for the calculation of basic and diluted earnings per share. 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 options and warrants (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 options, warrants and convertible debentures were converted into common stock that then shared in the Company’s earnings (loss) (as adjusted for interest expense, that would no longer occur if the debentures were converted).

Stock Options

The Company has adopted the fair value recognition provisions of FASB ASC 718, *Compensation Stock Compensation*. The critical estimates are volatility, expected life and risk-free rate.

The compensation cost recognized for the three months ended December 31, 2013 and 2012 was \$2,922 and \$281,745, respectively. There were no stock options exercises for the three months ended December 31, 2013 and 2012.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2013 AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2012

For the three months ended December 31, 2013, we had consolidated total revenues of \$29.4 million compared to consolidated total revenues of \$27.1 million for the three months ended December 31, 2012, an increase of \$2.3 million or 8.4%. The increase in total revenues was primarily attributable to sales at clubs purchased or built in 2013 and 2012 of approximately \$1.9 million.

Following is a comparison of our consolidated income statements for the quarters ended December 31, 2013 and 2012 with percentages compared to total revenue:

(in thousands)	2013	%		2012	%	
Sales of alcoholic beverages	\$ 11,689	39.7	%	\$ 10,406	38.3	%
Sales of food and merchandise	3,423	11.6	%	2,578	9.5	%
Service Revenues	12,730	43.3	%	12,655	46.6	%
Other	1,581	5.4	%	1,502	5.5	%
Total Revenues	29,423	100.0	%	27,141	100.0	%
Cost of Goods Sold	3,747	12.7	%	3,386	12.5	%
Salaries & Wages	6,577	22.4	%	6,038	22.2	%
Stock-based Compensation	3	0.0	%	282	1.0	%
Taxes and permits	4,416	15.0	%	4,221	15.6	%
Charge card fees	428	1.5	%	374	1.4	%
Rent	1,228	4.2	%	570	2.1	%
Legal & professional	908	3.1	%	641	2.4	%
Advertising and marketing	1,285	4.4	%	1,109	4.1	%
Depreciation and amortization	1,390	4.7	%	1,320	4.9	%
Insurance	799	2.7	%	499	1.8	%
Utilities	595	2.0	%	489	1.8	%
Other	2,431	8.3	%	2,278	8.4	%
Total operating expenses	23,807	80.9	%	21,207	78.1	%
Income from continuing operations	5,616	19.1	%	5,934	21.9	%
Interest income	77	0.3	%	8	0.0	%
Interest expense	(2,012)	-6.8	%	(1,643)	-6.1	%
Gain (loss) on change in fair value of derivative instruments	-	0.0	%	(1)	0.0	%
Income from continuing operations before income taxes	\$ 3,681	12.5	%	\$ 4,298	15.8	%

Following is an explanation of significant variances in the above amounts.

Service revenues include cover charges, fees paid by entertainers, room rentals, memberships and fees charged for credit card processing. Other revenues include ATM commissions earned, video games and other vending and certain promotion fees charged to our entertainers. We recognize revenue from other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding, media postage. The cost of goods sold for the club operations for the three months ended December 31, 2013 was 12.7% compared to 12.4% for the three months ended December 31, 2012. The cost of goods sold for same-location-same-period of club operations for the three months ended December 31, 2013 was 11.8%, compared to 12.4% for the period ended December 31, 2012.

The increase in payroll and related costs, stated as “Salaries & Wages” above, was primarily due to the addition of the new clubs during 2012 and 2013. Payroll for same-location-same-period of club operations decreased to \$4.7 million for the three months ended December 31, 2013 from \$5.0 million for the same period ended December 31, 2012. Management currently believes that its labor and management staff levels are appropriate.

The increase in rent expense is due to certain refunds in 2012 of overpaid rent from a landlord in prior years and also new rentals from rented facilities, especially in Rick’s New York and the new restaurant concepts.

The increase in legal and professional is principally due to more activity in cases in 2013.

The increase in insurance expense is due to an increase from acquisitions and an increase in premium rates, especially in the general liability area. Also see Note 11 of Notes to Consolidated Financial Statements for more information regarding our former general liability insurer.

The increase in the percentage of other expenses is due to growth from new clubs.

The increase in interest expense was attributable to the new debt in 2012 and 2013 from growth and acquisition debt, net of the continuing amortization of our long-term debt.

Income taxes, as a percentage of income before taxes was 35.9% and 36.9% for the quarters ended December 31, 2013 and 2012, respectively. The decrease is due to larger permanent differences in 2012, principally the stock-based compensation.

Operating income (exclusive of corporate overhead) for same-location-same-period of club operations was \$7.1 million for each of the three months ended December 31, 2013 and December 31, 2012.

Non-GAAP Financial Measures

In addition to our financial information presented in accordance with GAAP, management uses certain “non-GAAP financial measures” within the meaning of the SEC Regulation G, to clarify and enhance understanding of past performance and prospects for the future. Generally, a non-GAAP financial measure is a numerical measure of a company’s operating performance, financial position or cash flows that excludes or includes amounts that are included in or excluded from the most directly comparable measure calculated and presented in accordance with GAAP. We monitor non-GAAP financial measures because it describes the operating performance of the company and helps management and investors gauge our ability to generate cash flow, excluding some recurring charges that are included in the most directly comparable measures calculated and presented in accordance with GAAP. Relative to each of the non-GAAP financial measures, we further set forth our rationale as follows:

Non-GAAP Operating Income and Non-GAAP Operating Margin. We exclude from GAAP operating income and GAAP operating margin amortization of intangibles, patron taxes, gains and losses from asset sales, stock-based compensation charges, litigation and other one-time legal settlements and acquisition costs. We believe that excluding these items assists investors in evaluating period-over-period changes in our operating income and operating margin without the impact of items that are not a result of our day-to-day business and operations.

Non-GAAP Net Income and Non-GAAP Net Income per Basic Share and per Diluted Share. We exclude from GAAP net income and GAAP net income per diluted share and per basic share amortization of intangibles, patron taxes, income tax expense, impairment charges, gains and losses from asset sales, stock-based compensation, litigation and other one-time legal settlements and acquisition costs, and include the Non-GAAP provision for income taxes, calculated as the tax-effect at 35% effective tax rate of the pre-tax non-GAAP income before taxes less stock-based compensation, because we believe that excluding such measures helps management and investors better understand our operating activities.

Adjusted EBITDA. We exclude from GAAP net income depreciation expense, amortization of intangibles, income tax, interest expense, interest income, gains and losses from asset sales, acquisition costs, litigation and other one-time legal settlements and impairment charges because we believe that adjusting for such items helps management and investors better understand operating activities. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for Federal, state and local taxes which have considerable variation between domestic jurisdictions. Also, we exclude interest cost in our calculation of Adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use Adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our acquisitions of nightclubs.

The following tables present our non-GAAP measures for the quarters ended December 31, 2013 and 2012 (in thousands, except per share amounts):

	For the Quarter Ended December 31,	
(in thousands)	2013	2012
Reconciliation of GAAP net income to Adjusted EBITDA		
GAAP net income attributable to Rick's shareholders	\$ 2,404	\$ 2,647
Income tax expense	1,323	1,584
Interest expense and income and gain on derivative	2,012	1,644
Litigation and other one-time settlements	120	-
Acquisition costs	-	55
Loss from discontinued operations	1	14
Depreciation and amortization	1,390	1,320
Adjusted EBITDA	\$ 7,250	\$ 7,264
Reconciliation of GAAP net income (loss) to non-GAAP net income		
GAAP net income attributable to Rick's shareholders	\$ 2,404	\$ 2,647
Patron tax	738	891
Amortization of intangibles	89	131
(Gain) loss on change in fair value of derivative instruments	-	1
Stock-based compensation	3	282
Litigation and other one-time settlements	120	-
Income tax expense	1,323	1,584
Acquisition costs	-	55
Loss from discontinued operations, net of income taxes	1	14
Non-GAAP provision for income taxes	(1,636)	(1,863)
Non-GAAP net income	\$ 3,042	\$ 3,742

Edgar Filing: RICKS CABARET INTERNATIONAL INC - Form 10-Q

Reconciliation of GAAP diluted net income per share to non-GAAP diluted net income per share

Fully diluted shares		9,855		9,833
GAAP net income attributable to Rick's shareholders	\$	0.25	\$	0.28
Patron tax		0.07		0.09
Amortization of intangibles		0.01		0.01
(Gain) loss on change in fair value of derivative instruments		-		0.00
Stock-based compensation		0.00		0.03
Litigation and other one-time settlements		0.01		-
Income tax expense		0.14		0.16
Acquisition costs		-		0.01
Loss from discontinued operations, net of income taxes		0.00		0.00
Non-GAAP provision for income taxes		(0.17)		(0.19)
Non-GAAP diluted net income per share	\$	0.31	\$	0.39

Reconciliation of GAAP operating income to non-GAAP operating income

GAAP operating income	\$	5,616	\$	5,934
Patron tax		738		891
Amortization of intangibles		89		131
Stock-based compensation		3		282
Litigation and other one-time settlements		120		-
Acquisition costs		-		55
Non-GAAP operating income	\$	6,566	\$	7,293

Reconciliation of GAAP operating margin to non-GAAP operating margin

GAAP operating income	19.1	%	21.9	%
Patron tax	2.5	%	3.3	%
Amortization of intangibles	0.3	%	0.5	%
Stock-based compensation	0.0	%	1.0	%
Litigation and other one-time settlements	0.4	%	0.0	%
Acquisition costs	0.0	%	0.2	%
Non-GAAP operating margin	22.3	%	26.9	%

The accompanying consolidated financial statements reflect the following as discontinued operations as of and for the three months ended December 31, 2013 and 2012.

Discontinued Operations

In March 2011, we made the decision to sell our Las Vegas location and, in April 2011, sharply reduced its operations in order to eliminate losses as we sought a buyer for the property. We believe that we had done everything possible to make this location viable since its acquisition in 2008 and believed it was in our 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 financial statements.

In August 2011, the Company sold a controlling portion of the membership interest in the entity that previously operated its Rick's Cabaret in Austin, Texas. Accordingly, the Company deconsolidated the subsidiary and carried it as an equity-method investment. The Company had not received any cash flows from the entity since the sale and did not anticipate any in the near future. A new nightclub has not been opened in the space since the Company sold its controlling interest. In June 2013, the Company sold the remaining portion of its membership interest in the entity to a third party and recognized a gain of approximately \$2,300 on the sale. Accordingly, the club is recognized as a discontinued operation in the accompanying consolidated financial statements.

There were no revenues of discontinued operations for the years ended September 30, 2013 and 2012.

Following is summarized information regarding the discontinued operations:

(in thousands)	Quarter Ended December 31,	
	2013	2012
Loss from discontinued operations	\$ (2)	\$ (22)
Income tax - discontinued operations	1	8
Total loss from discontinued operations, net of tax	\$ (1)	\$ (14)

Major classes of assets and liabilities included as assets and liabilities of discontinued operations as of:

(in thousands)	December 31, September 30,	
	2013	2013
Current assets	\$ 2	\$ 31
Property and equipment	15	31
Other assets	-	2
Current liabilities	(14)	(114)
Long-term liabilities	(33)	(33)
Net assets (liabilities)	\$ (30)	\$ (83)

LIQUIDITY AND CAPITAL RESOURCES

We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. Refer to the heading "Cash Flows from Operating Activities" below. The near-term outlook for our business remains strong, and we expect to generate substantial cash flows from operations in 2014. As a result of our expected cash flows from operations, we have significant flexibility to meet our financial commitments. We prefer not to raise capital through the issuance of common stock. Instead, we use debt financing, including convertible debt, to lower our overall cost of capital and increase our return on shareholders' equity. Refer to the heading "Cash Flows from Financing Activities" below. We have a history of borrowing funds in private transactions and from sellers in acquisition transactions and continue to have the ability to borrow funds at reasonable interest rates in that manner. We have historically utilized these cash flows to invest in property and equipment and adult nightclubs. Refer to the heading "Cash Flows from Investing Activities" below.

As of December 31, 2013, excluding the patron tax liability, we had working capital of \$0.8 million compared to working capital of \$4.8 million as of September 30, 2013. The decrease is principally due to the increase in current portion of long-term debt. Because of the large volume of cash we handle, stringent cash controls have been implemented. At December 31, 2013, our cash and cash equivalents were \$10.3 million compared to \$10.7 million at September 30, 2013.

Our depreciation for the quarter ended December 31, 2013 was \$1.3 million compared to \$1.2 million for the quarter ended December 31, 2012. Our amortization for the quarter ended December 31, 2013 was \$89,000 compared to \$131,000 for the quarter ended December 31, 2012.

Sources and Use of Funds

Cash flows from operating activities are generally the result of net income adjusted for depreciation and amortization expenses, deferred taxes, (increases) decreases in accounts receivable, inventories and prepaid expenses and increases (decreases) in accounts payable and accrued liabilities. See a summary of these activities below.

Cash flows used in investing activities generally reflect payments relating to acquisitions of businesses, property and equipment and marketable securities. See a summary of these activities below.

Cash flows from financing activities generally reflect proceeds from issuance of shares and long-term debt, and payments on debt and put options and purchase of treasury stock. See a summary of these activities below.

Cash Flows from Operating Activities

Following are our summarized cash flows from operating activities:

(In thousands)	Three Months Ended	
	December 31,	
	2013	2012
Income from continuing operations	\$ 2,358	\$ 2,714
Depreciation and amortization	1,390	1,320
Deferred taxes	890	(109)
Stock compensation expense	3	282
Change in operating assets and liabilities	1,173	1,985
Other	16	32
	\$ 5,830	\$ 6,224

Cash Flows from Investing Activities

Following are our summarized cash flows from investing activities:

(In thousands)	Three Months Ended December 31, 2013	2012
Sale of marketable securities	\$ -	\$ 500
Additions to property and equipment	(5,613)	(2,438)
Acquisition of development rights in New York building	(5,325)	-
Additions of businesses, net of cash acquired	(500)	-
	\$ (11,438)	\$ (1,938)

Following is a reconciliation of our additions to property and equipment for the quarters ended December 31, 2013 and 2012:

(in thousands)	Three Months Ended December 31, 2013	2012
Acquisition of real estate	\$ 1,231	\$ 11,483
Purchase of aircraft and upgrades	4,292	-
Capital expenditures funded by debt	(4,348)	(9,711)
New capital expenditure in new clubs	4,079	290
Maintenance capital expenditures	359	376
Total capital expenditures in consolidated statement of cash flows	\$ 5,613	\$ 2,438

Cash Flows from Financing Activities

Following are our summarized cash flows from financing activities:

(In thousands)	Three Months Ended December 31, 2013	2012
Proceeds from long-term debt	\$ 7,025	\$ -
Purchase of put options and payments on derivative	-	(74)
Payments on long-term debt	(1,767)	(2,402)
Purchase of treasury stock	-	(405)
Distribution of minority interests	(54)	(54)
	\$ 5,204	\$ (2,935)

The following table presents a summary of our cash flows from operating, investing, and financing activities:

(In thousands)	Three Months Ended December 31, 2013	2012
Operating activities	\$ 5,830	\$ 6,224
Investing activities	(11,438)	(1,938)

Edgar Filing: RICKS CABARET INTERNATIONAL INC - Form 10-Q

Financing activities		5,204		(2,935)
Net increase (decrease) in cash	\$	(404)	\$	1,351

Other than the potential loss of the Patron Tax issue with the State of Texas (see Note 11 of Notes to Consolidated Financial Statements) we are not aware of any other event or trend that would potentially affect liquidity. In the event such a trend develops, we believe our working capital and capital expenditure requirements will be adequately met by cash flows from operations. We also believe that, in the event of loss of the Patron Tax issue, the State of Texas would waive any penalties and allow us to pay out any liability over a reasonable amount of time. In our opinion, working capital is not a true indicator of our financial status. Typically, businesses in our industry carry current liabilities in excess of current assets because businesses in our industry receive 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 in our industry with opportunities to adjust to short-term business down turns. We consider the primary indicators of financial status to be the long-term trend of revenue growth, the mix of sales revenues, overall cash flow, profitability from operations and the level of long-term debt.

The following table presents a summary of such indicators for the quarters ended December 31:

	2013	Increase (Decrease)		2012
Sales of alcoholic beverages	\$ 11,689	12.3	%	\$ 10,406
Sales of food and merchandise	3,423	32.8	%	2,578
Service Revenues	12,730	0.6	%	12,655
Other	1,581	5.3	%	1,502
Total Revenues	\$ 29,423	8.4	%	\$ 27,141
Net cash provided by operating activities	5,830	-6.3	%	6,224
Adjusted EBITDA*	7,250	-4.2	%	7,264
Long-term debt	87,645	24.4	%	70,451

* See definition of adjusted EBITDA above under Results of Operations.

We have not established lines of credit or financing other than the above mentioned notes payable and 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.

Share repurchase

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5 million worth of our common stock in the open market. As of April 2013, we completed the repurchase of all \$5 million in stock authorized under this plan. On April 25, 2013, our Board of Directors authorized us to repurchase up to an additional \$3 million worth of our common stock in the open market or in privately negotiated transactions. During the quarter ended December 31, 2013, we did not purchase any shares of common stock in the open market. During the quarter ended December 31, 2012, we purchased 45,733 shares of common stock in the open market at prices ranging from \$7.84 to \$8.26. Under the Board's authority, we have \$2.6 million remaining to purchase additional shares as of December 31, 2013.

Other Liquidity and Capital Resources

We have not established lines of credit or financing other than the notes payable and 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.

We believe that the adult entertainment industry standard of treating entertainers as independent contractors provides us with safe harbor protection to preclude payroll tax assessment for prior years. We have prepared plans that we believe will protect our profitability in the event that sexually oriented business industry is required in all states to convert dancers who are now independent contractors into employees.

The sexually oriented business industry is highly competitive with respect to price, service and location, as well as the professionalism of the entertainment. Although management believes 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.

IMPACT OF INFLATION

We have not experienced a material overall impact from inflation in our operations during the past several years. To the extent permitted by competition, we have managed to recover increased costs through price increases and may continue to do so. However, there can be no assurance that we will be able to do so in the future.

SEASONALITY

Our nightclub operations are affected by seasonal factors. Historically, we have experienced reduced revenues from April through September with the strongest operating results occurring during October through March.

GROWTH STRATEGY

We believe that our nightclub operations can continue to grow organically and through careful entry into markets and demographic segments with high growth potential. Our growth strategy is: (a) to open new clubs after market analysis, (b) to acquire existing clubs in locations that are consistent with our growth and income targets and which appear receptive to the upscale club formula we have developed, (c) to form joint ventures or partnerships to reduce start-up and operating costs, with us contributing equity in the form of our brand name and management expertise, (d) to develop new club concepts that are consistent with our management and marketing skills, (e) to develop and open our restaurant concepts as our capital and manpower allow, and/or (f) to control the real estate in connection with club operations, although some clubs may be in leased premises.

During fiscal 2010, we acquired three existing nightclub operations for a total cost of approximately \$9.2 million, including real property of approximately \$4.6 million. These acquisitions were funded primarily with cash of approximately \$5.9 million, real property debt of approximately \$2.5 million, and a seller's common stock which we owned, valued at approximately \$795,000. These nightclub operations had total revenues of approximately \$7.5 million, \$8.6 million and \$7.3 million and net income before taxes of approximately \$1.3 million, \$932,000 and \$609,000 for fiscal years 2013, 2012 and 2011, respectively.

During fiscal 2011, we acquired three existing nightclub operations and opened another for a total cost of approximately \$11.3 million, including real property of approximately \$6.4 million. These acquisitions were funded with cash. These nightclub operations had total revenues of approximately \$6.8 million and \$5.6 million and net income before taxes of approximately \$1.4 million and \$500,000 for the fiscal years 2013 and 2012, respectively.

During fiscal 2012, we acquired eleven existing nightclub operations and two other licensed locations under development for a total cost of approximately \$35.4 million, including real property of approximately \$7.6 million. These acquisitions were funded primarily with cash of approximately \$4.9 million, debt of \$22 million and real property debt of approximately \$9.0 million. These nightclub operations had total revenues of approximately \$18.5 million and \$4.3 million and net income before taxes of approximately \$2.9 million and \$620,000 for fiscal years 2013 and 2012, respectively. These amounts do not include the acquisition of approximately \$10.1 million of real estate relating to the Jaguars acquisition (see Note 8 of Notes to Consolidated Financial Statements) which was closed on October 16, 2012.

During fiscal 2013, in addition to the real estate explained in the previous paragraph, we have acquired an existing licensed location for \$3,000,000 (\$1.5 million in cash and the balance in promissory notes). This location was remodeled and opened in January 2014. We also acquired the remaining 50% of an unopened club for \$863,000 of common stock in May 2013. We also acquired another club for \$300,000 in cash. We previously had acquired the real estate for this location.

In October 2013, the Company purchased 49 percent of a corporation that operates the Dallas club “PT’s Platinum” and also acquired the building and personal property. Total cost of the transaction was \$500,000.

We continue to evaluate opportunities to acquire new nightclubs and anticipate acquiring new locations that fit our business model as we have done in the past. The acquisition of additional clubs will require us to obtain additional debt or issuance of our common stock, or both. 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. An inability to obtain such additional financing could have an adverse effect on our growth strategy.

In addition to their strong cash flow, the acquisition of the Media Division has enabled us to create new marketing synergies with major industry product suppliers and new national advertising opportunities. It also provides us with additional diversification of our revenue and income streams while remaining within our core competency.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of December 31, 2013, there were no material changes to the information provided in Item 7A of the Company’s Annual Report on Form 10-K for fiscal year ended September 30, 2013.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's senior management, including the Company's chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this quarterly report (the "Evaluation Date"). In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "*Internal Control Integrated Framework*" (1992 version). Based on this evaluation, the Company's chief executive officer and chief financial officer concluded as of the Evaluation Date that the Company's disclosure controls and procedures were effective such that the information relating to the Company, including consolidated subsidiaries, required to be disclosed in the Company's Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2013 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

See the "Legal Matters" section within Note 11 of Notes to Consolidated Financial Statements within this Quarterly Report on Form 10-Q for the requirements of this Item, which section is incorporated herein by reference.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2012, as such factors could materially affect the Company's business, financial condition or future results. In the three months ended December 31, 2013, there were no material changes to the risk factors disclosed in the Company's 2012 Annual Report on Form 10-K. The risks described in the Annual Report on Form 10-K are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition or results of operations.

Item 6. Exhibits.

Exhibit 31.1 Certification of Chief Executive Officer of Rick's Cabaret International, Inc. required by Rule 13a 14(1) or Rule 15d 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Chief Financial Officer of Rick's Cabaret International, Inc. required by Rule 13a 14(1) or Rule 15d 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 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 2002 and Section 1350 of 18 U.S.C. 63.

101.INS

XBRL Instance Document.

101.SCH

XBRL Taxonomy Extension Schema Document.

101.CAL

XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF

XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB

XBRL Taxonomy Extension Label Linkbase Document.

101.PRE

XBRL Taxonomy Extension Presentation Linkbase Document

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 10, 2014

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

Date: February 10, 2014

By: /s/ Phillip K. Marshall
Phillip K. Marshall
Chief Financial Officer and Principal Accounting Officer