



HOME COMPANY INFORMATION PRESS RELEASES SEC FILINGS CLUB LOCATIONS MEDIA STORE



February 16, 2006

Edition > Section: **Business**

Rick's Grows In Spite of Changing Attitudes

BY PAMELA RYCKMAN - Special to the Sun
 URL: <http://www.nysun.com/article/27729>



LOOKING FOR GROWTH Rick's Cabaret opened its New York location on West 33rd Street in September

At the end of happy hour on a recent Thursday evening, the suits filed in. Three men in their 50s and 60s descended from the dining room, ready for a lap dance. Four 20-somethings in bespoke jackets loosened Hermes ties and beckoned girls to join them.

Rick's Cabaret opened its New York location on West 33rd Street five months ago, despite a few hurdles, among them uncertainty about demand from Wall Street, in light of recent discrimination lawsuits brought by female employees.

The club's chief executive, **Eric Langan**, hopes to attract employees of New York's investment firms at a time when attitudes may be changing toward establishments like his. Mr. Langan said he does not expect shifting rules or mores to affect his business - not the \$1.4 billion class action brought last month by six senior women at Dresdner Kleinwort Wasserstein, nor the \$54 million settlement in July 2004 of a discrimination lawsuit at Morgan Stanley, nor Morgan's firing of four traders after they took a female client to a Phoenix-area strip club late last year.

Bankers have been unable to use expense accounts for trips to topless bars for more than a decade, and larger firms long ago abandoned such outings as officially sanctioned events. Yet Mr. Langan said employees who work on Wall Street comprise a large portion of his clientele.

Recently, a group of bankers and their client rented a VIP suite for \$200, plus girls at \$400 an hour. The group was celebrating a \$2 million profit on a deal and in seven hours at Rick's, ran up a tab totaling more than \$20,000.

"If I'm doing a \$2 million deal and my client wants to go to a strip club, I'm going to take him," Mr. Langan said. "The big banks

can say whatever they want, but if the clients want to go, their employees are not going to stop coming."

Among other methods, Rick's plans to lure customers away from establishments like Scores and Ten's by offering wireless Internet access and flat-screen televisions broadcasting CNBC.

New rules aside, the men of Wall Street don't abstain from going to strip clubs. Many just no longer share this information with employers. As one equity salesperson says, "Strip club visits absolutely exist. The hedge fund community is still awash with guys looking to go. But it's mostly at the end of the evening with a small group of friends you know and trust. Men like watching attractive women and fantasizing about them. That's not going to change."

Mr. Langan, who is 37, opened his first strip club when he was 20 and assumed controlling interest of Rick's in 1999. He has been looking forward to this month, when bankers receive their bonuses, particularly since Wall Street is handing out a record \$21.5 billion in all this year.

"I've heard it's a fantastic month for the clubs when the Street does well," he said. "You have these Wall Street guys who are workaholics and have no life, so when they make a million dollars, they come here and blow \$10,000. What's it to them?"

Rick's held its first quarterly "Stockbroker's Due Diligence Ball" on Wednesday. On Tuesday, Valentine's Day, the firm reported fiscal 2006 first quarter net income of \$525,396, or 12 cents per share, compared to a net loss of \$6,485 for the same period last year. Mr. Langan attributes this success to improved sales at existing clubs and to increased brand awareness resulting from the New York establishment.

Mr. Langan said Mayor Giuliani's quality of life initiatives - a 1995 rule that adult establishments could use only 40% of their space to sell materials with sexual content as well as a zoning law prohibiting strip clubs and sex-oriented businesses from operating within 500 feet of residences, schools, day care centers, and places of worship - made it possible for Rick's to thrive in New York.

The laws limit competition and create high barriers to entry because they outlaw strip clubs from almost every desirable location in Manhattan; it is nearly impossible to open a new club unless your business is grandfathered into an existing location, as Rick's was.

"There are so many people here and so much money, but not enough upscale clubs," he said, citing the city's population of eight million and about 16 topless clubs.

Last year, Rick's Cabaret International, the Houston-based adult entertainment company that in 1995 became the first gentlemen's club to go public, purchased a 10,000-square-foot pre-existing all-nude club in Midtown. After an extensive renovation, it now operates as a topless bar with gourmet food and top-shelf liquor, including \$3,500 bottles of Louis XIII cognac, \$1,325 bottles of Dom Perignon 1990, and a menu featuring \$62 surf and turf.

Rick's is the largest of three publicly traded gentlemen's club conglomerates in the nation, operating 10 clubs in four states. A second is Lakewood, Colo.-based VCG Holding Corporation (AMEX: PTT), which owns clubs under various brands, mostly in the West and Midwest, and has a market cap of \$8.98 million, less than half of Rick's \$20.08 million. Scores Holding Company owns the Scores trademark, but Rick's is the only strip club in America to operate under a specific brand name and enforce a cultural template across all clubs. Rick's stock trades at \$4.65 per share, about a 70% gain from July, while VCG's is trading at \$1.05, and Scores at a penny a share.

Wall Street has taken notice as Rick's stock price [**NASDAQ: RICK**] has climbed steadily for the past two years, and Mr. Langan projects record revenues for his Manhattan establishment. At the December Equities Magazine Winter Conference at the Yale Club, Mr. Langan said he expects Rick's New York to generate \$8 million in revenue in 2006, one-third of the company's estimated total fiscal year revenues of \$23 million to \$24 million. He thinks the addition of a New York club will more than double his firm's profits to \$2 million in 2006. "In 18 months, we are going to be no. 1 in New York," he said.

Mr. Langan equates the current transition in the adult entertainment industry to that of casinos 20 years ago. Like strip clubs, casinos began as independently owned "mom-and-pop shops" with mob ties and seedy reputations, but then the government increased regulation, and corporate America came in. Now strip club proprietors like Mr. Langan are trying to cleanse their industry of its negative associations, and government regulations are becoming more uniform from state to state.

Mr. Langan said the recent scandals plaguing competitors, such as last week's indictment of three Scores executives for tax evasion, would never happen at his company. And Rick's fingerprints all patrons who use credit cards to buy "dance dollars" to guard against lawsuits, such as the one brought in October 2005 by American Express against Savvis Incorporated and its CEO for failing to pay a one-night tab of \$241,000 at Scores.

Strip clubs are ripe for mergers, acquisitions, and IPOs, Mr. Langan said. He wants Rick's to lead the charge. Mr. Langan aspires for Rick's to be both "the Hooters and the Hard Rock Cafe" of adult entertainment, meaning that he plans to focus on merchandising and building a nationally recognizable brand name. Likening himself to Hugh Hefner, Mr. Langan said, "I want to build the empire."

But even with the cache that comes with employing beautiful women and offering high-end food and drink, for Mr. Langan, "It's about the money. It's always been about the money." Sounds like something his Wall Street clients would say.

© 2006 The New York Sun