

13-Aug-2009

Quarterly Report

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Scores Holding Company, Inc. ("Scores," the "Company," "we," "us" or "our") was incorporated in Utah on September 21, 1981 under the name Adonis Energy, Inc. Since 2003, we have been in the business of licensing the "Scores" trademarks and other intellectual property to fine gentlemen's nightclubs with adult entertainment in the United States. There are three such clubs currently operating under the Scores name, in Baltimore, Chicago, and New Orleans.

On January 27, 2009, Entertainment Management Services, Inc. ("EMS"), an entity owned by two of our former directors and employees, transferred to us of all the Scores licensing and royalty rights originally granted to EMS in 2003. As a result of this transfer, our intellectual property is now licensed directly by us and we are now entitled to 100% of the royalty payments made by our licensed clubs rather than the 50% we were entitled to under the agreement with EMS.

Additionally on January 27, 2009, Mitchell's East LLC, wholly owned by Robert M. Gans, acquired a majority interest in our outstanding capital stock. I.M. Operating LLC ("IMO"), which is partially owned by Robert M. Gans who is also our majority shareholder, has signed a licensing agreement with us and commenced operations in New York of a new Club (the "New York Club") under the Scores name in May 2009. Throughout this report, we refer to the New York Club as our affiliate, because of the common ownership by Mr. Gans. All other clubs are referred to as non-affiliated clubs or as licensees, a term that may include the New York Club when the context requires.

Results of Operations

Three Months Ended June 30, 2009 ("the 2009 period") Compared to Three Months Ended June 30, 2008 ("the 2008 period").

Revenues:

Revenues increased Sixty three (63%) percent to \$57,835 for the 2009 period from \$35,561 for the 2008 period. Revenues from our Chicago nightclub increased three (3%) to \$15,581 for the 2009 period from \$15,108 from the 2008 period, from our Baltimore club decreased (7%) to \$12,254 for the 2009 period from \$13,172 for the 2008 period and from our New Orleans club,

decreased one hundred (100%) to \$0 for the 2009 period from \$6,000 in the 2008 period. (See Bad Debt Expense below). In May 2009 the New York Club commenced operations. We received approximately \$50,000 in advance cash royalty payments from the New York Club, which we applied \$30,000 towards the May and June 2009 royalties due. The balance of \$20,000 will be applied towards future royalties due.

1. As more fully described in our annual report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2008.

General and Administrative Expenses:

General and administrative expenses decreased during the 2009 period to \$138,227 from \$108,944 during the 2008 period. The difference reflects a \$25,000 payout of prior quarter salaries during the June 30, 2009 three month period. Our efforts to expand into and capitalize on new markets with the Scores brand decreased significantly in the 2009 period due to the short falls in our anticipated revenue during the 2009 and 2008 periods.

Provision for Income Taxes:

The provision for state income taxes relates primarily to the greater of average assets and capital taxable income. The average assets and capital are not impacted by net operating losses.

Net (Loss):

Our net (loss) was \$(110,392) or \$(0.00) per share for the 2009 period compared to a net (loss) of \$(77,380) or \$(0.00) per share for the 2008 period. The increase in net (loss) for the 2009 period was a result of bad debt reserves of approximately \$30,000 incurred in connection with our Baltimore and New Orleans licensees.

Net (loss) per share data for both the 2009 period and the 2008 period is based on net income available to common shareholders divided by the weighted average of the number of common shares outstanding.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Revenues:

Revenues decreased seven (7%) percent to \$117,618 for the 2009 six month period from \$126,884 for the 2008 six month period. Revenues from the Las Vegas club declined one hundred percent (100%) to \$0 for the 2009 six month period from \$54,000 for the 2008 six month period. This decline was due to the sale of the Las Vegas club which terminated its

license agreement in August of 2008. Royalty revenues increased from our Chicago licensee seven (20%) percent to \$33,364 for the 2009 six month period from \$28,049 for the 2008 six month period, from the Baltimore licensee, forty eight (48%) percent to \$39,254 for the 2009 six month period from \$26,474 for the 2008 six month period. During the 2009 period the New York Club commenced operations. We received approximately \$100,000 in advance cash royalty payments from the New York Club and applied \$30,000 of such advance payments to revenue for the 2009 period. The \$70,000 balance will be applied towards future royalties. During the 2009 six month period, the Company reserved approximately \$30,000 in past due royalties from our Baltimore and New Orleans licensees (see Bad Debt Expense below).

General and Administrative Expenses:

General and administrative expenses increased during the 2009 six month period to \$230,794 from \$174,748 during the 2008 six month period. The \$56,000 difference represents a 2009 increase in operating expenses related to amortization of \$30,000, prior year sales taxes on capital improvements of \$19,000 and salaries of \$25,000 and reductions in insurance, public relations, business development and advertising of approximately \$18,000. Our efforts to expand our brand presence in new markets decreased significantly due to the short falls in our anticipated revenue during the 2009 and 2008 six month periods.

Provision for Income Taxes:

The provision for state income taxes relates primarily to the greater of average assets and capital taxable income. The average assets and capital are not impacted by net operating losses.

Net (Loss):

Our net (loss) was \$(137,176) or \$(0.00) per share for the 2009 six month period compared to a net (loss) of \$(52,579) or \$(0.00) per share for the 2008 six month period. This increase in our losses for the 2009 six month period was a result of a decrease in our revenues due to the sale of the Las Vegas club in May 2008 and the resultant discontinuance of that club as a licensee. We reserved approximately \$30,000 in bad debt relating to our Baltimore and New Orleans licensees. We experienced significant increases in our operating costs of approximately \$56,000 in the 2009 six month period from the 2008 six month period. The Company incurred significant increases in amortization expense of \$30,000, sales and use taxes on prior years' capitalized improvements of \$19,000 and management salaries of \$25,000 during the 2009 six month period. Our efforts to reduce spending on expansion during the 2009 six month period resulted to a \$18,000 reductions in public relations, advertising, insurance and business development.

Net (loss) per share data for both the 2009 six month period and the 2008 six month period is based on net income available to common shareholders divided by the weighted average of the number of common shares outstanding.

Bad Debt Expense

As of June 30, 2009, our Baltimore and New Orleans licensees owed us \$18,000 and \$12,000 in accrued and unpaid royalties, respectively. During the 2009 six month period, management agreed to write off the balance owed from our Baltimore licensee and reserve the amount owed by our New Orleans licensee. This determination to write off certain receivables resulted from decreases in licensee club revenues which may have dropped as a result of various prior legal matters connected with our former officers and New York affiliates. We settled with our Baltimore licensee and we are currently negotiating with the New Orleans licensee regarding its past due royalties. During the 2009 period, we did not report revenues from our New Orleans licensee.

Liquidity and Capital Resources

Cash:

At June 30, 2009, we had \$14,594 in cash and cash equivalents compared to \$173 in cash and cash equivalents at December 31, 2008.

Contractual Commitments:

On February 28, 2007, our then President, Chief Executive Officer and Director, Richard Goldring resigned from each of those positions, and terminated his employment with us under an employment agreement, dated April 16, 2003. The terms of such agreement provided that if Mr. Goldring terminated his employment without cause (which he did), we would become obligated to pay him \$1 million (the "Termination Fee"). Given our lack of available cash since Mr. Goldring's employment termination, we did not pay Mr. Goldring the Termination Fee. In May 2009, Mr. Goldring assigned his right, title and interest in and to the Termination Fee to Robert M. Gans. It is our understanding that Mr. Gans does not intend to collect from us the Termination Fee.

Operating Activities:

Net cash provided by operating activities for the six months ended June 30, 2009 and June 30, 2008 was \$35,403 and \$20,000, respectively. The increase in cash reflects the \$100,000 advance cash royalty payments made during the 2009 period from our New York affiliate licensee, which helped reduce a significant portion of our outstanding debt. Net royalty receivables for the six months ended June 30, 2009 increased \$11,000 over the amount for the six months ended June 30, 2008. During the 2009 six month period, debt in the amount of \$6,000 was forgiven from our former related parties. This forgiveness was the result of our purchase of the Master License Agreement from EMS.

Overall revenue declined in the 2009 six month period from the 2008 six month period. This, in part, was a result of the loss of our main licensee in Las Vegas, which accounted for

approximately fifty nine percent (44%) of our royalty revenue in 2008, and to shortfalls in revenue from our Baltimore and New Orleans licensees in 2009, where club revenues may have dropped as a result of various prior legal matters connected with our former officers and New York affiliates. These matters may have adversely impacted operations of our licensees' clubs in Baltimore and New Orleans in 2009.

Financing Activities:

During the 2009 period our bank overdraft decreased by \$21,000. This decrease resulted from the \$100,000 advance cash payments of future royalties received from our New York affiliate licensee.

Future Capital Requirements:

We have incurred losses since the inception of our business. Since our inception, we have been dependent on acquisitions and funding from private lenders and investors to conduct operations. As of June 30, 2009 we had an accumulated deficit of \$(6,108,937), with total current assets of \$39,296 and total current liabilities of \$257,110, or negative working capital of \$(217,814). As of December 31, 2008, we had total current assets of \$14,018 and total current liabilities of \$155,808 or negative working capital of \$(141,790). The increase in negative working capital was primarily attributable to the increase in our cash and accounts receivable, which did not exceed our payables during the 2009 three and six month periods. The Company received \$100,000 in advance cash payments from our affiliate New York licensee of which \$30,000 was applied towards May and June 2009 royalties and the remaining \$70,000 will be applied towards future period revenues.

We will continue to evaluate possible acquisitions of or investments in businesses, products and technologies that are complimentary to ours. These may require the use of cash, which would require us to seek financing. We may sell equity or debt securities or seek credit facilities to fund acquisition-related or other business costs. Sales of equity or convertible debt securities would result in additional dilution to our stockholders. We may also need to raise additional funds in order to support more rapid expansion, develop new or enhanced services or products, respond to competitive pressures, or take advantage of unanticipated opportunities. Our future liquidity and capital requirements will depend upon numerous factors, including the success of our adult entertainment trademark licensing business.