

16-Nov-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 four such clubs currently operating under the Scores name, in New York, 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 September 30, 2009 ("the 2009 period") Compared to Three Months Ended September 30, 2008 ("the 2008 period").

Revenues:

Revenues increased to \$123,618 for the 2009 period from \$33,660 for the 2008 period. The increase in revenue was due primarily as a result of the cancellation of the Master License Agreement with EMS (the "MLA") in December 2008. Pursuant to the MLA, EMS retained fifty percent of our royalties due from non affiliates. As a result of the cancellation, revenues from our Chicago nightclub increased one hundred thirty six percent (136%) to \$27,579 for the 2009 period from \$11,690 from the 2008 period, while revenues from our Baltimore club increased one hundred twenty two percent (122%) to \$31,039 for the 2009 period from \$13,970 for the 2008 period and revenues from our New Orleans club increased one hundred fifty (150%) to \$15,000 for the 2009 period from \$6,000 in the 2008 period.

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

Revenues from the New York Club, which commenced operations in May 2009, increased to \$50,000 in the 2009 period from \$0 in the 2008 period. The New York Club paid us \$25,000 in advance. The Company will apply these payments to revenue in future periods when earned.

General and Administrative Expenses:

General and administrative expenses increased during the 2009 period to \$116,804 from \$89,553 during the 2008 period. During the 2009 period, the Company recognized approximately \$43,000 of prior period cost related to business development and insurance. Amortization expense on our trademark brand increased \$12,196 to \$27,126 in the 2009 period from \$14,930 in the 2008 period. Costs for rent, legal and trade shows decreased approximately \$44,000 during the 2009 period compared to the 2008 period. Our efforts to expand into new markets with the Scores brand increased salaries and business development cost during the 2009 period.

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 income (loss):

Our net income was \$6,814 or \$0.00 per share for the 2009 period compared to a net (loss) of \$(76,594) or \$(0.00) per share for the 2008 period. The increase in net income for the 2009 period was a result of a two hundred sixty seven percent (267%) increase in royalties earned from our licensees during the 2009 period over the 2008 period. Our costs were significantly increased, including amortization and insurance which together increased by approximately \$61,000. This increase was offset by reductions in rent, legal and trade show expenses of approximately \$44,000 during the 2009 period over the 2008 period.

Net income/(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.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Revenues:

Revenues increased fifty percent (50%) to \$241,236 for the nine month 2009 period from \$160,544 for the nine month 2008 period. Royalty revenues from our Chicago licensee increased fifty three (53%) percent to \$60,943 for the nine month 2009 period from \$39,740 for the nine month 2008 period, while revenues from our Baltimore licensee increased seventy three percent (73%) to \$70,293 for the nine month 2009 period from \$40,444 for the nine month 2008 period. Revenues from our Las Vegas licensee (which terminated our license in May 2008) decreased one hundred percent (100%) to \$0 for the nine month 2009 period from \$54,000 for the nine month 2008 period. The Las Vegas licensee had accounted for approximately thirty four (34%) percent of our revenue in 2008.

During the second quarter of 2009, the New York Club commenced operations. We received approximately \$125,000 in advances against future cash royalty payments from our New York affiliate and applied \$80,000 of such advance

payments to revenue during the nine month 2009 period. The \$45,000 balance will be applied towards future royalties. During the nine month 2009 period, the Company reserved approximately \$12,000 from our New Orleans licensee and \$18,000 from our Baltimore licensee against past due royalties. See (Bad Debt Expense below).

General and Administrative Expenses:

General and administrative expenses increased during the nine month 2009 period to \$347,598 from \$264,301 during the nine month 2008 period. This difference was primarily due to an increase of \$49,000 in amortization expense related to our trademark brand, increases in business development cost and prior sales taxes of \$37,500 and \$19,000, respectively, during the 2009 period over the 2008 period. These increases were offset by significant reductions in public relations, salaries, legal, rent, and advertising expenditures. Our efforts to expand our brand presence in new markets were impacted negatively by our short falls in our anticipated revenue during the 2009 and 2008 nine 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 \$(130,362) or \$(0.00) per share for the nine month 2009 period compared to a net (loss) of \$(129,713) or \$(0.00) per share for the nine month 2008 period. Losses during the nine month 2009 period were not significant as compared to the nine month 2008 period. The Company had significant increases in revenues primarily due to the cancelled MLA with EMS. The fifty percent revenue that EMS had retained under the MLA ceased with the MLA's cancellation. On the other hand, the Company had significant ad hoc increases in cost for business development, amortization, bad debts and prior year sales taxes increased during in the 2009 period over the 2008 period.

Net (loss) per share data for both the nine month 2009 period and the nine month 2008 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 September 30, 2009, our Baltimore and New Orleans licensees owed us \$18,000 and \$12,000, respectively, in

accrued and unpaid royalties. During the 2009 nine month period, management agreed to write off the \$18,000 balance owed from our Baltimore licensee and continue to reserve the amount owed by our New Orleans licensee. The determination to write off certain receivables was made in connection with reductions in revenues from our licensees as a result of the various prior legal matters relating to our former officers and New York affiliates. We settled with our Baltimore licensee and we are currently negotiating with our New Orleans licensee regarding past due royalties. For the three month 2009 period, the Company recorded approximately \$15,000 in current royalties of which \$10,000 was received and \$5,000 remains outstanding for its New Orleans licensee.

Liquidity and Capital Resources

Cash:

At September 30, 2009, we had \$39,458 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 (used) in and provided by operating activities for the nine months ended September 30, 2009 and September 30, 2008 was \$(35,288) and \$5,000, respectively. The decrease in cash reflect reductions in amounts due to related parties and inventory write downs offset by increases in royalties receivable, bad debt and amortization expenses during the 2009 versus the 2008 periods. During the nine month 2009 period, debt in the amount of \$6,000 was forgiven from one of

our former related parties. This forgiveness was the result of our purchase of the Master License Agreement from EMS.

Financing Activities:

During the 2009 period our bank overdraft decreased by \$21,000 as a result of our receiving the \$125,000 cash advance against future royalties, from our New York affiliate licensee. We accrued approximately \$60,000 in expenses for rent due to our Westside Realty affiliate and approximately \$65,555 of expenses for insurance, business development and accounting paid in cash by our New York affiliate on behalf of the Company.

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 September 30, 2009 we had an accumulated deficit of \$(6,102,123), with total current assets of \$65,858 and total current liabilities of \$243,482 or negative working capital of \$(177,624). 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 decrease 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 nine month periods. The Company received \$125,000 in advance cash payments from our New York affiliate of which \$30,000 was applied towards May and June 2009 royalties and \$50,000 was accrued and applied toward the three months ended September 2009. The remaining \$45,000 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.