Transcript of RCI Hospitality Holdings, Inc.
Fourth Quarter 2016 Update
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Participants

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Analysts

John Rolfe – Argande Capital
Kevin Casey – Casey Capital
Evan Tindell – Bireme Capital
Adam Mikkelsen – Cooper and Company
Steve Martin – Slater Capital

Presentation

Operator
Greetings, and welcome to RCI Hospitality Holdings Fiscal 2016 Fourth Quarter Update Conference Call and Webcast. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference call is being recorded.

It is now my pleasure to introduce Gary Fishman, who handles investor relations for RCI.

Gary Fishman – Investor Relations
Thank you, Rob. Please, everybody, if you could start by turning to slide 2 of the presentation. I want to remind everybody that our safe harbor statement is posted at the beginning of our presentation. It reminds you that you may hear or see forward looking statements that involve a number of risks and uncertainties. I urge you to read it. Actual results may differ materially from those currently anticipated. We disclaim any obligation to update information disclosed in this call as a result of developments which occur afterwards. I also direct you to the explanation of non-GAAP measurements used in today's presentation.

Now, I am pleased to introduce Eric Langan, President and CEO of RCI Hospitality.

Eric Langan, President and CEO
Thank you, Gary. Good afternoon, everyone. If you'll please turn to slide 3. As we said in our news release this morning, we have a lot of exciting things to talk about. We wanted to share them with you now and not wait to hold our earnings conference call in December.

As many of you know, a year ago we formally launched our capital allocation strategy. At that time, we were generating approximately $15 million of free cash flow annually. However, return on investment had room for improvement. As part of that policy, we calculated the risk-free return of using free cash flow to repurchase our own shares, and we began using that this year as a baseline to make better investment decisions.

We saw that we had made mistakes prior to having this policy that could have been avoided if we had used the strategy. Since then, we have evolved this strategy into a philosophy that we're now applying to all of our assets as well as our free cash flow. This includes our existing properties, operations, as well as management's time and focus.

As a result, we're announcing the following actions, most of which took place in the fourth quarter. We have sold two clubs, one that was unprofitable, and one that was just over breakeven. We are moving and reformatting two clubs to increase revenues and margins. We have closed our only Bombshells that was unprofitable. We are announcing two new Bombshells with the potential for greater cash-on-cash returns than the prior model. We sold the majority our interest in Robust, and we have refinanced $14.2 million in debt at lower average rates and moved all non-realty balloons to 2021. And since June 30th, we have paid off the last of the convertible debentures having options and warrants eliminating any potential share overhang.

There will be some gains as well as some non-cash charges associated with parts of this in the fourth quarter. But more importantly, these actions should enable us to grow revenues and expand margins in 2017 and increase our base free cash flow run rate in the years ahead.

In addition, we wanted to update you on other activities, including how we continue to repurchase shares in the fourth quarter further reducing our shares outstanding, how club and restaurant total and same-store sales continue to demonstrate positive year-over-year trends in the fourth quarter, how we have settled the last of the most serious remaining cases due to our prior insurance company's insolvency, how we have begun negotiating with third parties to sell off non-income producing properties to free up additional capital, and that this weekend we are moving into our new corporate offices as a first step in building a stronger plug-and-play infrastructure for adding new clubs and restaurants.

If you will please turn to slide 4, here's our capital allocation strategy. It is how we measure our free cash flow to decide our best return on investment when it comes to buying back our shares, buying or opening new units, taking actions if units or operations are not performing, or paying off debt. We've made a few updates since our last call to take into account fourth-quarter share repurchases and the pay-down of nearly all remaining convertible debt. Based on this, with the stock in the $11 to $12 range, and our new $18 million annual free cash flow run rate, we're generating a compelling 15% to 17% after tax yield on free cash flow simply by repurchasing our own stock. To justify anything other than buying our own shares, we're applying two times hurdle rate. At current levels, this is approximately 30% to 33%, meaning any new investment will require an anticipated cash-on cash-return of three years or less, absent any other strategic rationale.

If you'll please turn to slide 5. There are four major actions we've taken in our nightclub segment. First, we have sold Cabaret North in Fort Worth. It was a money-losing club with no prospect for a short-term turnaround because of heavy freeway construction. We sold it to a nearby competitor for $4.5 million, most of it in cash. We anticipate a fourth-quarter gain of $300,000 and eliminating an annual operating loss of about $200,000 in 2017.

Second, we sold Rick's Cabaret Indianapolis to another local competitor for $1.8 million. This was a marginally profitable club that was consuming too much time and focus from our regional management team in Minneapolis to justify continuing operations. We anticipate a deferred $300,000 gain.

Third, we are moving Club Onyx Dallas into the smaller Club Dulce location less than half a mile away. Club Onyx is a good business but in too large of a space. We don't expect any change in revenue, but we'll be able to improve Club Onyx's margins.

Fourth, we're going to convert the former Club Onyx location into a Foxy's Cabaret. This will be the largest BYOB club in Texas. The Foxy's concept has proven to be very profitable in Austin. The end result should be greater revenues and profit for this location.

With these actions, we are better rationalizing our regional clusters for better management focus. The South Central part of the US is an important market for us with 27 locations—25 in Texas and one each in Louisiana and Phoenix. With the opening Hoops in Manhattan, the Northeast region now has four locations. Minneapolis has three, and the Southeast has two including our biggest club, Tootsies, in North Miami.

If you'll turn to slide 6. Now, we'll take a look at our plans for Bombshells. First, we have closed Webster which was in Southeast Houston. This was our smallest revenue-generating unit and has been operating at a loss. It was our second Bombshells unit and a test in many ways. We wanted to see whether Bombshells worked as a destination in a "B" location, but we have learned that Bombshells work best in "A" locations near highways and shopping malls with good visibility, traffic, and other restaurants. We'll have a one-time non-cash loss in the fourth quarter to write off the leasehold improvements, but we'll be able to use most of the equipment to lower the cost of opening one of the three new locations.

With regards to that, we are about to start construction for the Bombshells on Highway 290 in the northwest part of Houston. We plan to open this unit by the end of the second quarter 2017. I'm pleased to announce we are now using bank financing to create our next two sites. These will be in Pearland, Texas and the east side of Houston on Interstate 10. With all the previous sites, we leased the properties and had to reconfigure existing buildings. With these two units, we have bought the property with bank financing and have lined up banks to finance the construction for us.

There are three big advantages. First, it will reduce our cash outlay per unit to about $1 million from what it has been, which has been anywhere between $1.5 million to $3 million. This will enable us to generate even greater cash-on-cash returns. Second, we can create a standardized unit with everything that we have proven to work best. This will enable us to truly maximize revenues and margins per unit. Third, this will provide us with the first-generation showpiece prototypes to enhance franchise sales. Ideally, we want franchisees to build units from the ground up to ensure consistency of the brand. In line with that, as I mentioned on our last call, we are continuing to develop our franchise marketing organization.

If you'll turn to the slide 7. Regarding Robust, we sold the majority of our interest to its founder for a $2 million promissory note. We retained our discount pricing. However, we are under no obligation to buy product or fund the business going forward. We anticipate there will be a fourth quarter non-cash loss on sale and impairment charges totaling $2.5 million.

With regard to legal, we are down to 8 active cases out of the original 62 from the Indemnity insolvency. During the fourth quarter, we settled the most serious remaining cases for a total of approximately $1.2 million. There are a few more cases to settle, and then we can put this Indemnity issue behind us.

If you'll please turn to slide 8. Looking at our debt management, we have been very successful in restructuring all major balloon payments until 2020 and beyond. To show the changes, we are using the amortization and balloon schedules we showed you during the last conference call. We had a $6.2 million realty balloon due in 2017. This was refinanced with a $9 million loan at a lower rate and better amortization. This enabled us to take $2.7 million in equity and convert it into cash.

That left us with $8 million in a high-cost non-realty balloon due 2018. We refinanced that at a slightly lower rate on a 15-year amortization with a balloon in 2021.

We had $3.5 million in realty balloons due in 2018. We paid $1 million of this down with the sale of Cabaret North. The balance is related to non-income producing properties in Texas which we're in the process of selling.

We've also paid off $1.5 million in convertible debentures eliminating any share overhang associated with the related notes and warrants. These were the final payments on the convertibles that had been issued in the past and eliminates the last of those outstanding warrants.

If you'll please turn to slide 9. We are pleased to report we continued to buy back shares in the fourth quarter. We purchased more than 140,000 shares at an average price of $10.92, investing $1.5 million. This was the highest average price per share paid on a quarterly basis in fiscal year 2016. Not only does this reflect our commitment to the capital allocation strategy, but it reflects our confidence in the future.

For the year, we acquired close to 750,000 shares at an average price of $9.79, investing $7.3 million. This is the largest annual buyback in the company's history. At September 30, 2016, we had 9.8 million shares outstanding compared to 10.3 million a year ago, a reduction of about 5%. Throughout fiscal 2016, we returned a total of $8.2 million to shareholders: $890,000 in dividends and the $7.3 million in share repurchases. Additionally, we've declared a dividend for December of $0.03 per share.

If you'll please turn to slide 10. This morning we released our fourth quarter club and restaurant sales. We continue to see positive trends in both total and same-store sales, especially considering where we were at at the start of the year. On a month-over-month basis, July was up, August was down, and September was up strongly.

As we had anticipated, at the end of the quarter, we began to see very nice benefit from the Vikings returning to downtown Minneapolis. Last year they played outside the city while their new stadium was under construction.

Because we sold Cabaret North and Rick's Indianapolis, they were excluded from same-store sales calculations.

Nightclub segment sales were virtually level with the year-ago quarter while Bombshell segment sales were up 10.5%. Excluding Webster, the remaining four locations were up 15.7% combined.

If you'll please turn to slide 11. To address a few remaining items, during the fiscal '17 year, we hope to complete the sale of about $7 million in real estate that is non-income producing and therefore no longer needed. After paying down any related debt, proceeds would be used to buy back shares or fund growth.

We have completed our new office building on schedule and will move in over the weekend. Then, we will focus on completing implementation of our new accounting system. This is expected to go online January 1, 2017. After we complete the transition, we expect a meaningful reduction of overtime and other related costs as well as an increase in the seamlessness of our cash management, accounting systems, and analysis of data.

If you'll please turn to slide 12. I know we've thrown a lot at you today, and we've tried to summarize everything on this slide. It is still a little early for us to provide exact figures for everything. As you know, we have not yet completed our yearend audit.

But bottom line, we expect fourth-quarter non-GAAP results to be good while we currently estimate more than $3 million in nonrecurring net losses, most of it non-cash. Looking at the balance sheet, the net of these transactions adds $5.2 million in cash, $4.8 million in new receivables, and approximately $600,000 in net new debt. The average interest paid on our debt will also be reduced going into fiscal 2017.

If you'll please turn to slide 13. Looking ahead we believe these actions will help strengthen our prospects for revenue, margin, and earnings growth in fiscal 2017 and achieve our initial target of approximately $18 million in free cash flow. Key factors will be the addition of Hoops in the first quarter, Foxy's Dallas in the second quarter, and the three new Bombshells sometime during the second half.

This should be enhanced by a strong sports lineup. We have the return of the Vikings in Minneapolis. In the second quarter, the Super Bowl will be in Houston where we have five locations, both clubs and Bombshells, and mixed martial arts events coming to Madison Square Garden in Manhattan where we now have three locations. Margins should improve from the sale of Cabaret North and Rick's Indianapolis, the closing of Club Dulce in Dallas and the Bombshells in Webster, as well as moving Club Onyx Dallas into the new building.

Year-to-date, our stock is up 21.1% in total return versus 6.5% for the S&P. While we'll be having some nonrecurring charges in the fourth quarter, our plan reflects our determination to improve shareholder value. We're intent on being more focused, more profitable, and a strong cash flow generating company with reduced shares outstanding.

Thank you for your time today. Operator, we'll be pleased to take any questions now.

Operator
Thank you. We'll now be conducting a question and answer session. [Operator instructions]. One moment please while we poll for questions. Our first question is from John Rolfe with Argande Capital. Please proceed with your questions.

Q: Hi, guys, nice job certainly on the capital application program. Over the past 12 months it's been a big positive. Just a couple of quick questions for you on the fiscal '17 outlook. First, when you talk about margin and EPS growth, is that growth for the core operations? In other words, if you're going to book $3.3 million of nonrecurring operating losses in 4Q, I guess my question is can we exclude that when we're looking at growth for 2017 over 2016?

Eric Langan, President and CEO
Yes, I think what you're going to see is we're starting to see the same-store sales trends coming back up. We believe that our sports lineup this year is going to be way better than last year. This should definitely help that same-store sales percentage get back to that 3%, 5%, or 6% growth rate in some places. So I think some of it's going to come from that, but lot of it's going to come from just all the anchors that we've cut—getting rid of Robust, getting rid of clubs that were losing money that we've carried along, three or four clubs throughout this year.

I think we're down to about 40 operating locations now from a high of about 47 or 48 that we had at one point. We've just gotten rid of some smaller stuff. We've gotten rid of stuff we've had to do a lot of travel for. If a club makes a little bit of money, but we spend it all sending our people back and forth to monitor it and keep up with it. So we've taken those assets and said look, We took the capital allocation policy to cash flow, but what if we take it and put it on existing assets? What if we take it and apply it to management's time and management's efforts and said, What's our return from these things? If we don't spend this money, we can buy back stock with it, and we get this return.

So, if we're going to spend this money on any of these other things, or we're going to have this money tied up over here in this property, and it's not returning 15% to 17% for us at least, then we have to reconsider why are we strategically holding it? What's our purpose for owning that asset? It's really freed up a lot of stuff. It's taken emotion out of everything.

I'd say for many, many years we had emotion for something and then we tried to make the numbers work to match the emotion. Now, what we've done is we have the math. You get excited, oh I like this. Okay, does the math work? Then, the math is what the math is, and then the emotion adjusts to what the math is because if the math isn't any good the emotion goes right away. In that way, we've been able to really change, I think, in the past 12 months, and that's why I say it's really gone from a policy to a strategy, and now it's really a philosophy of how we're going to do things as we move forward.

Q: Okay, so qualitatively between the comp lift and cutting some of these money losers, it sounds like you are confirming that we're talking about growth in margins and earnings from the core operations. I just want to confirm that.

Eric Langan, President and CEO
Yes, I believe so. Yes, that's what I believe at this time, in addition to, like I said, if we get a little bit of growth here plus the extra growth from the drag.

Q: Okay, and in terms of looking at the blended interest rate, I don't know if you guys want to get this granular at this point, but year-over-year 2017 versus 2016, on a blended basis, what are we talking about, a 50 basis point improvement?

Eric Langan, President and CEO
I think we're going to be under 7.5% going forward from here. It's so early; I just don't have all the quarter closeouts. We're just now getting September closed out. Now they're starting to do the quarter stuff. They are starting to make some of the adjustments.

This was a little early for this call, but I wanted to update everybody on it because we did so much right at the end of the quarter. We closed three deals on September 28th and 29th. So I just wanted to get everybody out there to say here's what's coming and here's why we did it because people know we've sold this club or people have heard that we sold the Robust, or different people heard different things, and I just wanted all the information out there so everyone knows exactly what's going on and why we did things, because everyone was speculating on why we did some of these things.

Q: Okay, great. Again, thanks, and it's been nice watching the progress.

Eric Langan, President and CEO
Thank you. We're going to stay the course, appreciate it.

Operator
Our next question is from the line of Kevin Casey with Casey Capital. Please proceed with your question.

Q: Hi, guys, I have a couple questions. One, can you define plug-and-play as you used in your slides. I was kind of confused by that.

Eric Langan, President and CEO
Sure. Basically what we're doing is all of our stuff right now is manually entered. We have to get the bank statements or download them, enter them into our software. Our new accounting software talks to the bank's computers. It gets all this stuff and basically does it all itself. All we have to do is have people go in and verify and check everything. There's no more data entry.

Right now, we have to print out and upload into the system all of our daily sales reports from the clubs. With the new software, the software goes out talks to the club's POS system and says give me all of your data from last night. It's going to automatically enter it into our accounting system so everything's basically going to become automated in the new system, saving us hours and hours and hours of people's time and mistakes because people can make data entry mistakes where the computers aren't going to make mistakes. All they're going to have to do is if something happens, if something didn't download properly, then somebody's going to have to go in and verify and check, but basically it's going to make everything so much smoother and faster.

Q: Then, does it add a layer of theft prevention or any issues at the clubs if something happens?

Eric Langan, President and CEO
Well, what it does is it gives us instantaneous information. Right now, we have to wait for data entry. You have to run everything. So, when we close out, we get our P&Ls typically around the 10th to the 12th of the month and sometimes the 15th depending on whether holidays or weekends cause issues. It just takes that many days for them to enter everything, do everything, check everything. We'll have fairly accurate financials within five days at the end of the month with the new system. And real-time information on a daily basis.

Q: It's probably too early to talk about Hoops. I was curious if there's any cannibalization and then also how Hoops is doing already.

Eric Langan, President and CEO
Yes, it seems to be doing pretty well. It's only been open 13 days. We just had the grand opening there and it was kind of a light grand opening. We'll probably do another big event right after the first of the year.

We're very happy with it. As far as cannibalizing Rick's or Vivid or anything else, Vivid added to Rick's. Right now we're seeing Hoops is adding to Rick's. We had a big friends and family event basically start out at Hoops. They end up at Rick's for a little while and vice versa. Some people came over to Rick's and then went over and checked out Hoops, so I think they're going to share a few customers, but overall it's going to bring more people out for more visits. They may come down to Hoops to watch the game or watch the fight and then end up over to Rick's at the end of the night, so I think they'll complement each other very, very well in that regard.

Q: Okay, that's it's for me, fine.

Operator:
[Operator instructions]. Our next question is from Evan Tindell with Bireme Capital. Please go ahead with your questions.

Q: Hi, guys how's it going?

Eric Langan, President and CEO
How are you?

Q: Good. Historically I think you guys talked about how due to the industry you guys are in, you guys didn't see a lot of private equity competition for assets. I know you guys aren't out there buying a ton of clubs right now, but I was just wondering, is that as true today as it was in the past or do you guys feel like there's been a softening? What sort of trajectory is that is on?

Eric Langan, President and CEO
I think that we get calls every day about people wanting to sell their clubs. We lucked out on to the two that we sold because of relationships with competitors in those markets where we were competitive with the other clubs and we basically said look, sell us your club or buy ours. And they said, okay, we'll buy yours. I said, Okay, good, here, buy it. So we were lucky in that sense that we were able to—now they have their little monopoly on their side of town, and we have our monopolies on our sides of town and everybody's happy.

That's kind of how we see it. But as far as anybody really moving into the market, we carry paper. Unless you're going to carry paper, there's not a lot of cash out there in the industry chasing these deals right now. I still think we're the buyer of choice.

I haven't seen any private equity. I've seen other club operators that are trying to expand their own operations and usually the deals that have happened are that prices are way down compared to where they were in 2008, 2009 as far as multiples. There are no five and six multiples of clubs trading. They're all trading around three. Some of the good locations might trade at four times EBITDA. That tends to be the prices right now.

I think as we start moving into a position where our return on our own stock is lower, we're going to be looking for clubs again. Our cash will build up on the balance sheet, and we'll take it and put it to work. There's plenty of stuff out there to buy if we want to be in the market. It's just right now, once again, I think we can tend to buy most of our own assets with our cash unless we want to go out and borrow a bunch of money again. I think right now we're just going to stay this course. We're looking. We're watching our stock price. We're doing our math on some of these deals. If the right deal comes up, you'll see us do an acquisition. Until then, we'll just keep doing what we're doing. It's working very well for us.

Q: Okay, great, thanks. What about Texas? I know some people in the past—maybe some people are kind of worried that there might be a drop-off just due to oil price collapse there. Has that ship sailed?

Eric Langan, President and CEO
Oil has come back a little bit. Oil's up at $50 a barrel. We're seeing a little bit better in Longview. We're seeing a little bit better in Odessa. It's not fantastic, but it's good. The restaurant markets weren't affected by oil that much. We had an unbelievable quarter in our restaurants this year.

If you take Webster out of the transaction, we were up 15.7% year-over-year. Dallas is our strongest unit now. It was our third-best unit. It's now our number one unit. It's our oldest unit. We've made a few changes there. We changed the menus in February. That had a very, very positive response. That response is still going very well. Our Houston locations are good.

The three new locations, we have the demographics down. We have the traffic down We have entrance/exit freeways, the other restaurants, everything that we've learned over these last three years are all going and all being applied and put into these next three units. I think you're going to see huge success with them.

We are in negotiations and working very tirelessly right now on securing a franchise sales coordinator, a vice president to head up our franchising division with many years of experience in similar type $3 million investment restaurants. We have some other staff that we're working on as well for that franchise development as well as open our three new stores. So we're very excited about Bombshells as well as the bank financing now, the buildings, and our investment becomes much less because if we go in and spend $3 million and $2 million, it is from the bank and $1 million is our money. Then, if we have any issues, at least we own property and the building and we can turn around and sell it to someone for $2 million and get the majority of our money back.

So, it really lowers our cash risk and our cash outlay on these Bombshells. And it lets us have the perfect store right from day one. If you look at Brinker and Darden, when they go and build these restaurants and their new chains, they go and buy property and build their buildings so that their restaurant is exactly the way that they want it.

We're kind of following that at this point, not to the grand scale they are, I mean three units, but at least we've lined up the bank financing for those types of things, which a few years ago we couldn't even get bank financing against any property. Now, we're doing new construction with bank financing, so we're very excited about the relationships we're building with our bankers and the ability to buy and borrow 5% and 6% money.

Q: Okay, thanks, guys.

Operator
[Operator instructions]. The next question is from the line of Adam Mikkelsen with Cooper and Company. Please go ahead with your questions.

Q: Yes, hi Eric.

Eric Langan, President and CEO
Hi, how are you?

Q: Good, how are you?

Eric Langan, President and CEO
I'm hanging in here.

Q: You've been busy.

Eric Langan, President and CEO
Yes, I'm going to be moving this whole weekend.

Q: Yes, it sounds like you've gone through the whole club base. You've looked at returns. You've subjected everything to a hurdle. Has going through this exercise changed your perspective at all in terms of what you're looking for future deals either in size or location or positioning?

Eric Langan, President and CEO
Absolutely, because now we're taking our management capital, like Indianapolis, it was not a bad deal. We made money there. We made $0.5 million almost the first year we owned it just from a Super Bowl week and we only paid $1 million something for it. I mean it's been a good club for us, but from a management capital standpoint, our return on investment was horrible.

So, now we've pulled our management out of Indianapolis. In Minneapolis, to give you an idea with the Vikings back in town, we have units there that are up 40% year-over-year. It's been a very, very strong year, and a lot of it is the Vikings are back. The stadium is back in town. There's a lot of excitement downtown, and our management is very, very focused on their three units that they have there, and not spending a week every month in Indianapolis traveling back and forth. So it's worked out very well for us.

Q: You'll tend towards having concentrated clubs in certain geographies as opposed to onesies here and there?

Eric Langan, President and CEO
Like I said, that's part of that management capital. We like the clustering. We like keeping stuff close. Texas is a huge state, so we do have units that are pretty far out and whatnot, but we have access to them, and that's the real key is getting access without keeping management time tied up all the time.

Q: Right, well, it's great progress, and thanks.

Eric Langan, President and CEO

Yes, and thank you.

Operator
Thank you. Our next question is from the line of George Caterlino, a private investor. Please go ahead with your questions.

Q: I just wanted to make a statement that I'm really glad to see your emphasis on Bombshells and the concentration of the expansion in Houston. I believe as we get a greater percentage of the profits from the restaurants, the market should increase the PE ratio as you become less of a sin stock. It's difficult to find restaurants that trade at a forward PE of 15 or less. Fast growing restaurants like you can deliver have even higher PEs and that's in contrast to the current PE of 10. There's a lot of capital appreciation that could be achieved through greater number of restaurants. Thank you.

Eric Langan, President and CEO
Thank you, we believe that, too.

Operator
Thank you. Our next question comes from the line of Steve Martin with Slater. Please proceed with your questions.

Q: Hi there. I have a question on slide 8 which is the debt graph.

Eric Langan, President and CEO
Okay.

Q: Is the red $7.4 million the remaining amortizations for the year?

Eric Langan, President and CEO
Yes, that's what the standard amortization, in other words, those are the required minimum payments based on the loans.

Q: Okay, for instance, in your graph, the $6.2 million, that was before, and now the $9 million is going to slide into the last column, correct?

Eric Langan, President and CEO
That is a balloon that is now due in 2021.

Q: That'll get added to the $19.4 million

Eric Langan, President and CEO
No, that'll go to 2021, the year after the $19.4 million.

Q: Okay, got you, and the same thing with the balloon that you renegotiated on the unsecured loans.

Eric Langan, President and CEO
Right, that's the green $8 million there on that slide.

Q: That's going to go out to 2021 as well.

Eric Langan, President and CEO

Exactly. And it's amortizing now. You have to remember, those were interest-only notes in the past, the $8 million.

Q: Right.

Eric Langan, President and CEO
So, the $7.4 may go up a little bit because there's going to be a little amortization on there, and we were able to lower that down from 13% on $4 million of that, the entire loan down to 12% as well.

Q: Right, and the $7.4 million doesn't reflect what you've already paid down in the first quarter.

Eric Langan, President and CEO
Correct. Well, we haven't paid anything in the first quarter for 2017 yet. That's October forward.

Q: Okay, so the next question's on the share count and share buyback. On slide 9, so when I go to your 10-Q, your 10-Q said that as of June 30th, you had 9,770,000 shares, and in the fourth quarter you bought back 140,000 so your share count should be down closer to 9.6 million.

Eric Langan, President and CEO
Except for you have to take into consideration that there were 100 and some thousand management shares that were issued way back that weren't in the count. They're in the fully diluted count, but not the outstanding count, because there's two different counts. So, if you to go back to the fully diluted count back in the old days, it was like 10.7 some odd million, so there was 100,000 shares there that became outstanding, both Ed and I both worked for the full two years and now the shares vested.

Q: Okay.

Eric Langan, President and CEO
Then, we had two convertible debentures. The other debenture, their last payments and interest, and they exercised all their options or their warrants were all exercised in that quarter, sometime in August, around August 14th is when those—

Q: Got it. Then the warrants that were issued with the convert that expires this week are going to go away, but we won't see that reduction until the first quarter 10-Q.

Eric Langan, President and CEO
Well, we won't see the reduction in the fully diluted count. Actually they're not in fully diluted count.

Q: Because they're out of the money.

Eric Langan, President and CEO
Because they're out of the money, right. So, only the stuff that's in the money was in the fully diluted count.

Q: Okay, thank you very much

Eric Langan, President and CEO
Basically the way I look at it, we had 10.7 million shares that could've been out there at one point. Now, there's 9.808, and there's maybe I think there's about 300 and some thousand that's owed on a seller finance note that we have that's at 6% that's I think convertible at $10 or $10.25, something like that. I've asked them to either

convert it or let us pay it off or whatever, and they said, Just pay us our payments every month. So, I don't know how to explain that.

Q: Okay.

Eric Langan, President and CEO
There's like 30-some thousand shares there that could actually end up, so the fully diluted count will be like 9.842 or something along those lines.

Q: Okay, thank you very much.

Operator
Thank you. I'll now turn the floor back to Gary Fishman for closing remarks.

Gary Fishman
Thank you, Eric, for your time today. If everybody could please turn to slide 14, here's our reporting calendar for the balance of this year and an initial look at next year. Next week we're planning to do some institutional meetings in Florida and then present at the Dawson James second annual small cap growth conference in Jupiter. We have a webcast for that if you want to listen in. Then, the first week in December we'll be at the LD Micro Investor conference in Los Angeles. The following week we'll report a final fourth quarter and audited yearend results.

On behalf of Eric, the company, and all of our subsidiaries, thank you for your time on this call tonight. Have a good night and as always, please visit one of our clubs and restaurants.