RICKS CABARET INTERNATIONAL INC
Form 10-Q
May 10, 2011

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 March 31, 2011

¨ 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	76-0458229
(State or other jurisdiction of incorporation or organization)	(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 ¨ 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 o Accelerated filer o Non-accelerated filer ¨ Smaller reporting company x

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 May 2, 2011, 9,936,891 shares of the Registrant's Common Stock were outstanding.

RICK'S CABARET INTERNATIONAL, INC.
TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

ASSETS

(in thousands, except per share data)	March 31, 2011 (UNAUDITED)	September 30, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 17,344	$ 18,817
Accounts receivable:		
Trade, net	859	662
Other, net	284	206
Marketable securities	485	-
Inventories	1,136	1,100
Deferred tax asset	2,037	1,503
Prepaid expenses and other current assets	1,620	871
Assets of nightclub held for sale	3,035	3,160
Total current assets	26,800	26,319
Property and equipment, net	59,632	57,915
Other assets:		
Goodwill and indefinite lived intangibles, net	63,226	62,076
Definite lived intangibles, net	916	1,139
Other	1,064	922
Total other assets	65,206	64,137
Total assets	$ 151,638	$ 148,371

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)	March 31, 2011 (UNAUDITED)	September 30, 2010
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 740	$ 700
Accrued liabilities	4,369	4,414
Texas patron tax liability	5,446	3,955
Current portion of derivative liabilities	1,015	1,276
Current portion of long-term debt	6,223	5,461
Liabilities of nightclub held for sale	2,723	2,582
Total current liabilities	20,516	18,388
Deferred tax liability	16,818	15,566
Other long-term liabilities	752	719
Long-term debt	32,078	34,803
Derivative liabilities at fair value, less current portion	417	1,243
Total liabilities	70,581	70,719
Commitments and contingencies		
Temporary equity - Common stock, subject to put rights 102 and 198 shares, respectively	3,676	4,366
PERMANENT STOCKHOLDERS' EQUITY:		
Preferred stock, $.10 par, 1,000 shares authorized; none issued and outstanding	-	-
Common stock, $.01 par, 20,000 shares authorized; 9,677 and 9,766 shares issued and outstanding, respectively	97	98
Additional paid-in capital	61,447	62,326
Accumulated other comprehensive loss	(20)	-
Retained earnings	12,512	7,515
Total Rick's permanent stockholders' equity	74,036	69,939
Noncontrolling interests	3,345	3,347
Total permanent stockholders' equity	77,381	73,286
Total liabilities and stockholders' equity	$ 151,638	$ 148,371

See accompanying notes to consolidated financial statements.

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

(in thousands, except per share data)	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2011	2010	2011	2010
	(UNAUDITED)		(UNAUDITED)	
Revenues:				
Sales of alcoholic beverages	$ 9,205	$ 9,029	$17,564	$17,078
Sales of food and merchandise	1,982	1,782	3,766	3,372
Service revenues	10,396	10,225	19,807	19,518
Internet revenues	120	144	246	289
Media revenues	192	311	409	567
Other	944	948	1,905	1,620
Total revenues	22,839	22,439	43,697	42,444
Operating expenses:				
Cost of goods sold	2,807	2,639	5,325	5,096
Salaries and wages	4,762	4,411	9,438	8,722
Stock compensation	-	44	-	88
Other general and administrative:				
Taxes and permits	3,483	3,339	6,553	6,179
Charge card fees	374	370	738	717
Rent	1,076	1,028	2,155	2,051
Legal and professional	523	759	1,009	1,409
Advertising and marketing	1,176	1,507	2,359	4,445
Insurance	310	260	617	524
Utilities	425	415	831	828
Depreciation and amortization	1,125	903	2,207	1,745
Other	1,663	1,632	3,240	3,177
Total operating expenses	17,724	17,307	34,472	34,981
Operating income	5,115	5,132	9,225	7,463
Other income (expense):				
Interest income	44	6	56	9
Interest expense	(1,110)	(1,079)	(2,234)	(2,108)
Other	-	(3)	-	(3)
Gain on change in fair value of derivative instruments	333	385	481	429
Income before income taxes	4,382	4,441	7,528	5,790
Income taxes	1,406	1,423	2,423	1,917
Net income	2,976	3,018	5,105	3,873
Less: net income attributable to noncontrolling interests	(53)	(73)	(107)	(146)
Net income attributable to Rick’s Cabaret International, Inc.	$ 2,923	$ 2,945	$4,998	$3,727
Basic earnings per share attributable to Rick’s shareholders:				

Net income	$ 0.29	$ 0.31	$0.50	$0.40
Diluted earnings per share attributable to Rick's shareholders:				
Net income	$ 0.29	$ 0.31	$0.50	$0.40
Weighted average number of common shares outstanding:				
Basic	9,937	9,361	9,990	9,366
Diluted	10,771	10,238	10,004	9,394

Comprehensive income for the three months ended March 31, 2011 and 2010 was $2,929 and $3,090, and for the six months was $4,978 and $3,840, respectively. This includes the changes in available-for-sale securities and net income.

See accompanying notes to consolidated financial statements.

3

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

(in thousands, except per share data)	FOR THE SIX MONTHS ENDED MARCH 31, 2011 (UNAUDITED)	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$5,105	$3,873
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,207	1,745
Deferred taxes	1,038	1,399
Amortization of note discount	72	90
Beneficial conversion	-	11
Deferred rents	33	35
Gain on change in fair value of derivative instruments	(481)	(429)
Stock compensation expense	-	88
Changes in operating assets and liabilities:		
Accounts receivable	(363)	(596)
Inventories	(17)	(73)
Prepaid expenses and other assets	(907)	(855)
Accounts payable and accrued liabilities	1,603	2,492
Net cash provided by operating activities	8,290	7,780
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(505)	(1,009)
Additions to property and equipment	(3,492)	(2,231)
Acquisition of businesses, net of cash acquired	(1,150)	(2,660)
Payments from notes receivable	-	1
Net cash used in investing activities	(5,147)	(5,899)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of put options and payments on derivative instrument	(1,346)	(786)
Payments on long-term debt	(1,767)	(1,309)
Purchase of treasury stock	(1,395)	(544)
Distribution to noncontrolling interests	(108)	(150)
Net cash used in financing activities	(4,616)	(2,789)
NET DECREASE IN CASH	(1,473)	(908)
CASH AT BEGINNING OF PERIOD	18,817	12,531
CASH AT END OF PERIOD	$17,344	$11,623
CASH PAID DURING PERIOD FOR:		
Interest	$1,959	$1,545
Income taxes	$2,199	$635

See accompanying notes to consolidated financial statements.

4

Non-cash transactions:

In February 2010, the Company issued 41,829 shares of common stock to convertible debenture holders for accrued interest payable of $366,000.

During the six months ended March 31, 2010, the Company retired 58,000 common treasury shares. The cost of these shares was $544,065.

During the six months ended March 31, 2011, the Company purchased and retired 181,800 common treasury shares. The cost of these shares was $1,395,189.

During the six months ended March 31, 2011, the Company issued 26,320 shares of common stock for debt aggregating $269,780.

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 financial statements for the year ended September 30, 2010 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those 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 six months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011.

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

In January 2010, new guidance was issued regarding improving disclosures about fair value measurements. This standard amends the disclosure guidance with respect to fair value measurements for both interim and annual reporting periods. Specifically, this standard requires new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross rather than net, basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. Except for the detailed disclosures of changes in Level 3 items, which will be effective as of October 1, 2011, the remaining new disclosure requirements were effective as of October 1, 2010.

3. SIGNIFICANT ACCOUNTING POLICIES

Following are certain accounting principles and disclosures which are new since September 30, 2010.

Marketable Securities

Marketable securities at March 31, 2011 consist of bond funds. ASC 320, Investments in Debt and Equity Securities, requires certain investments be recorded at fair value or amortized cost. The appropriate classification of the investments in marketable equity is determined at the time of purchase and re-evaluated at each balance sheet date. As of March 31, 2011, the Company’s marketable securities were classified as available-for-sale, which are carried at fair value, with unrealized gains and losses reported as other comprehensive income within the stockholders’ equity section of the accompanying consolidated balance sheets. The cost of marketable securities sold is determined on a specific identification basis. The fair value of marketable securities is based on quoted market prices based on Level 1 inputs — quoted prices (unadjusted) for identical assets or liabilities in active markets. There have been no realized gains or losses related to marketable securities for the six month periods ended March 31, 2011 or 2010. Marketable securities held at March 31, 2011 have a cost basis of approximately $505,056.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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. Marketable securities are adjusted to fair market value at each balance sheet date. 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.

Discontinued Operations

In certain previous filings, the Company had recognized its Rick's Cabaret in Austin, Texas as a discontinued operation. That club was held for sale during a portion of 2009, but the Company decided to renovate and reopen the club and relaunch it with a new concept in April 2010. After the club was not immediately successful, the Company closed the club again in July 2010. The club began operating as Jaguars Gold Club in September 2010 until January 2011. The Company plans to reopen in May 2011 as a dance nightclub.

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 will be submitted to the shareholders of the Company for adoption 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.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

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

The compensation costs recognized for the three months ended March 31, 2011 and 2010 were zero and $44,037, respectively, and were zero and $88,074 for the six months then ended, respectively. There were no stock option exercises for the six months ended March 31, 2011. There were no stock option grants for the six month periods ended March 31, 2011 and 2010.

Below is the summary of common stock options outstanding as of March 31, 2011:

(in thousands) Employee and Director Stock Option Plan:	Options Authorized	Options Outstanding	Options Vested	Available for Grant
1999 Stock Option Plan	1,500	565	565	35

Stock Option Activity

The following is a summary of all stock option transactions for the six months ended March 31, 2011:

(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, 2010	565	$ 9.94		
Granted	-	-		
Cancelled or expired	-	-		
Exercised	-	-		
Outstanding as of March 31, 2011	565	$ 9.94	1.33	$544
Options exercisable as of March 31, 2011	565	$ 9.94	1.33	$544

5. GOODWILL AND OTHER INTANGIBLES

Following are the changes in the carrying amounts of goodwill and licenses for the six months ended March 31, 2011 and 2010:

	2011		2010	
(in thousands)	Licenses	Goodwill	Licenses	Goodwill
Beginning balance	$ 39,672	$ 22,404	$ 41,260	$ 21,048
Change in tax basis of assets	-	-	-	16
Intangibles acquired	1,150	-	2,000	-
Ending balance	$ 40,822	$ 22,404	$ 43,260	$ 21,064

8

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

6. SEGMENT INFORMATION

Below is the financial information related to the Company's segments:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Business segment sales:				
Night clubs	$22,527	$21,984	$43,042	$41,588
Media	192	311	409	567
Internet websites	120	144	246	289
	$22,839	$22,439	$43,697	$42,444
Business segment operating income:				
Night clubs	$6,014	$6,174	$11,023	$9,333
Media	(46)	(91)	(123)	(156)
Internet websites	(20)	21	(24)	43
General corporate	(833)	(972)	(1,651)	(1,757)
	$5,115	$5,132	$9,225	$7,463
Business segment capital expenditures:				
Night clubs	$3,984	$632	$4,511	$4,617
Other	-	5	-	133
General corporate	-	212	131	141
	$3,984	$849	$4,642	$4,891
Business segment depreciation and amortization:				
Night clubs	$841	$690	$1,660	$1,327
Media	5	5	10	10
Internet websites	1	2	2	6
General corporate	278	206	535	402
	$1,125	$903	$2,207	$1,745

General corporate expenses include corporate salaries, health insurance and social security taxes for officers, legal, accounting and information technology employees, corporate taxes and insurance, legal and accounting fees, depreciation and other corporate costs such as automobile and travel costs. Management considers these to be non-allocable costs for segment purposes

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

7. COMMON STOCK

During the six months ended March 31, 2011, the Company purchased 181,800 shares of Company common stock for its treasury at an aggregate cost of $1.4 million. These shares have been retired.

During the six months ended March 31, 2011, the Company issued 26,320 shares of common stock for debt aggregating $269,780.

During the six months ended March 31, 2010, the Company purchased 58,000 shares of Company common stock for its treasury at an aggregate cost of $544,065. These shares have been retired.

8. EARNINGS PER SHARE ("EPS")

The Company computes earnings per share in accordance with FASB ASC 260, Earnings Per Share. 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 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).

	FOR THE QUARTER ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
(In thousands, except for per share amounts)	2011	2010	2011	2010
Basic earnings per share:				
Net income attributable to Rick's shareholders	$ 2,923	$ 2,945	$ 4,998	$ 3,727
Average number of common shares outstanding	9,937	9,361	9,990	9,366
Basic earnings per share - net income attributable to Rick's shareholders	$ 0.29	$ 0.31	$ 0.50	$ 0.40
Diluted earnings per share:				
Net income attributable to Rick's shareholders	$ 2,923	$ 2,945	$ 4,998	$ 3,727
Adjustment to net earnings from assumed conversion of debentures (1)	227	180	-	-
Adjusted net income attributable to Rick's shareholders	$ 3,150	$ 3,125	$ 4,998	$ 3,727

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

8. EARNINGS PER SHARE (EPS) - continued

Average number of common shares outstanding:				
Common shares outstanding	9,937	9,361	9,990	9,366
Potential dilutive shares resulting from exercise of warrants and options (2)	25	42	14	28
Potential dilutive shares resulting from conversion of debentures (3)	809	835	-	-
Total average number of common shares outstanding used for dilution	10,771	10,238	10,004	9,394
Diluted earnings per share - net income attributable to Rick's shareholders	$ 0.29	$ 0.31	$ 0.50	$ 0.40

(1) Represents interest expense on dilutive convertible debentures that would not occur if they were assumed converted.
(2) All outstanding warrants and options were considered for the EPS computation.
(3) Convertible debentures (principal and accrued interest) outstanding at March 31, 2011 and 2010 totaling $8,295,123 and $7,680,522, respectively, were convertible into common stock at a price of $10.25 per share in 2010 and $8.75 to $12.00 per share in 2010. Potential dilutive shares of -0- and 30,877 for the three months ended March 31, 2011 and 2010, respectively, and 809,280 and 866,305 for the six months ended March 31, 2011 and 2010, respectively, have been excluded from earnings per share due to being anti-dilutive.

9. ACQUISITIONS

Joy of Austin

On December 18, 2009, the Company's wholly owned subsidiary, RCI Entertainment (3105 I-35), Inc. ("RCI"), entered into and closed a Stock Purchase Agreement (the "RCI Purchase Agreement") with Spiridon Karamalegos ("Karamalegos"), the Joy Club of Austin, Inc. ("JOY") and North IH-35 Investments, Inc. ("NIII"), whereby RCI acquired 51% of the outstanding stock of JOY and 49% of the outstanding stock of NIII. JOY is the owner and operator of the adult nightclub business known as "Joy of Austin" which leases and occupies the real property and improvements located at 3105 South IH-35, Round Rock, Texas 78664 (the "Property"). NIII is the owner of the Property and leases the Property to JOY. Contemporaneously with entry into the RCI Purchase Agreement, RCI and Karamalegos entered into an Assignment and Assumption Agreement (the "Assignment Agreement"), whereby Karamalegos assigned to RCI his right to acquire the remaining 49% of the outstanding stock of JOY and the remaining 51% of the outstanding stock of NIII, which right Karamalegos obtained pursuant to a Purchase Agreement entered into between Karamalegos, Evangelos Polycrates ("Polycrates"), JOY and NIII (the "Polycrates Purchase Agreement"). Pursuant to the RCI Purchase Agreement and the Assignment Agreement, RCI acquired and owns 100% of the outstanding stock of JOY and 100% of the outstanding stock of NIII.

Pursuant to the terms of the RCI Purchase Agreement and the Assignment Agreement, RCI paid aggregate consideration of $4.5 million, plus assumption of a promissory note with First State Bank-Taylor (the "Purchase Price"), for the acquisition of JOY and NIII. The Purchase Price was payable as follows:

11

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

9. ACQUISITIONS - continued

(i) $1.8 million by wire transfer to Karamalegos;

(ii) $880,000 by wire transfer to Polycrates;

(iii) $530,000 evidenced by a five (5) year secured promissory note to Karamalegos, bearing interest at the rate of 4.75% per annum and payable in sixty (60) equal monthly installments of principal and interest of $9,941 (the “Karamalegos Note”). The Karamalegos Note is secured by a third lien in favor of Karamalegos against the Property and improvements located thereon and a second lien on all of the shares of JOY and NIII;

(iv) $1.3 million evidenced by a five (5) year secured promissory note to Polycrates, bearing interest at the rate of 4.75% per annum and payable in sixty (60) equal monthly installments of principal and interest of $24,759 (the “Polycrates Note”). The Polycrates Note is individually guaranteed by Karamalegos for the first thirty (30) months and is secured by a second lien in favor of Polycrates against the Property and improvements located thereon and a first lien on all of the shares of JOY and NIII; and

(v) The assumption of a Promissory Note dated September 10, 2004, in the original principal amount of $850,000, executed by NIII and payable to First State Bank-Taylor, which Promissory Note had a current balance of $652,489 as of the date of acquisition, and is secured by the Property and improvements located thereon. The note bears interest at the rate of 7.25%, payable in monthly installments of principal and interest of $7,761. The interest rate is subject to adjustment on September 10, 2014 to the rate of prime plus 2.5%. The note is due and payable on or before September 10, 2019.

Also pursuant to the agreements described above, Karamalegos entered into a four (4) year Non-Competition Agreement with RCI, and Polycrates entered into a three (3) year Non-Competition Agreement with RCI.

The following information summarizes the allocation of fair values assigned to the assets and liabilities at the acquisition date.

(in thousands)

Net current assets	$	44
Property and equipment and other assets		2,955
Non-compete agreement		200
Goodwill		2,031
SOB licenses		2,004
Deferred tax liability		(2,031)
Net assets acquired	$	5,203

The Company incurred approximately $43,000 in legal costs associated with the acquisition, which are included in legal and professional expense in the accompanying consolidated statement of operations.

12

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

9. ACQUISITIONS - continued

Goodwill in the acquisition represents the offset to the deferred tax liability recorded as a result of the difference in the basis of the net assets for tax and financial purposes. The goodwill is not deductible for income tax purposes. The results of operations of this entity are included in the Company's consolidated results of operations since December 18, 2009. This acquisition was made to further the Company's growth objective of acquiring nightclubs that will quickly contribute to the Company's earnings per share. Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements.

On January 3, 2011, the Company's wholly owned subsidiaries, RCI Dining Services (Airport Freeway), Inc. ("RCI Dining") and RCI Holdings, Inc. ("RCI") completed the purchase of a new gentlemen's club adjacent to the south end of the Dallas-Ft. Worth International Airport and the purchase of the underlying real property, respectively, for an aggregate purchase price of $4,565,000. A Purchase Agreement and Build-to-Suit Turnkey Construction Agreement had previously been entered into in December 2009, which agreement provided for the construction of the new club and the purchase of the real property located at 15000 Airport Freeway (Highway 183), Fort Worth, Texas.

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

(in thousands)

Building, land and contents	$	3,126
Equipment and signs		288
SOB license		1,151
Net assets	$	4,565

10. 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:

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	For the Six Months Ended March 31, 2011	For the Six Months Ended March 31, 2010
Computed expected tax expense	$ 1,472	$ 1,485	$ 2,523	$ 1,919
State income taxes	45	38	90	77
Stock option disqualifying dispositions and other permanent differences	(111)	(100)	(190)	(79)
Total income tax expense	$ 1,406	$ 1,423	$ 2,423	$ 1,917

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

Included in the Company's deferred tax liabilities at March 31, 2011 is approximately $14.7 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.

11. COMMITMENTS AND CONTINGENCIES

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 has opted to collect the tax pending the outcome of its appeal. 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. The Attorney General of Texas has asked the Texas Supreme Court to review the case. On August 26, 2009, the Texas Supreme Court ordered both sides to submit briefs on the merits, while not yet deciding whether to grant the State's Petition for review. The State's brief was filed on September 25, 2009 and the Texas Entertainment Association's brief was filed on October 15, 2009. On February 12, 2010, the Supreme Court of Texas granted review of the Petition by the Attorney General of Texas. Oral argument of the matter was heard on March 25, 2010. The Company is awaiting a ruling from the Texas Supreme Court.

The Company has paid the tax for the first five calendar quarters under protest and expensed the tax in the accompanying 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 the subsequent quarters, as a result of the Third Court's decision, the Company accrued the fee, but did not pay the State. As of March 31, 2011, the Company has approximately $5.4 million in accrued liabilities for this tax. Patron tax expense amounted to approximately $796,000 and $810,000 for the quarters ended March 31, 2011 and 2010, respectively. The Company has paid more than $2 million to the State of Texas since the inception of the tax. The Company's Texas clubs have filed a separate lawsuit against the State to demand repayment of the taxes. If the State's appeal ultimately fails, the Company's current amount paid under protest would be repaid or applied to future admission tax and other Texas state tax liabilities.

12. NIGHTCLUB HELD FOR SALE

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 it seeks a buyer for the property. The Company believes that it has done everything possible to make this location viable since its acquisition in 2008 and now believes it is in its shareholders' best interests not to continue these efforts.

13. SUBSEQUENT EVENTS

The Company's wholly owned subsidiaries, RCI Dining Services (Indiana), Inc. ("RCI Indiana") and RCI Holdings, Inc. ("RCI Holdings"), entered into a Third Amendment to Purchase Agreement (the "Amended Purchase Agreement") with the Gold Club of Indy, LLC ("GCI"), the Estate of Albert Pfeiffer, deceased, and Lori Pfeiffer, personal representative of the Estate of Albert Pfeiffer, deceased, and sole member of GCI. GCI

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(UNAUDITED)

13. SUBSEQUENT EVENTS - continued

owned and operated an adult entertainment cabaret known as "The Gold Club," located at 3551 Lafayette Road, Indianapolis, Indiana 46222. GCI also owned the real property where The Gold Club is located. The Amended Purchase Agreement transactions closed on April 22, 2011, whereby (i) RCI Indiana acquired from Pfeiffer all assets which are used for the business of The Gold Club for $825,000 and (ii) RCI Holdings acquired from GCI the real property where The Gold Club is located, including the improvements thereon, for $850,000, for total aggregate consideration of $1,675,000.

Also at closing of the Amended Purchase Agreement, Lori Pfeiffer entered into a Non-Competition Agreement with RCI Indiana, pursuant to which she agreed not to compete with The Gold Club within Indianapolis, Indiana or any of the adjacent counties for a period of five years.

In April 2011, the Company settled certain cross-litigation with the former sellers of the Las Vegas club. As a result of the settlement, the Company paid the sellers approximately $1.6 million in cash as full settlement of its obligation under a debt instrument with a remaining principal and interest balance at the time of $2.5 million. The Company will record a gain of approximately $900,000 in April 2011 as a result of the settlement. In addition, the Company and the sellers agreed to cancel the Lock-up/Leak-out Agreement and the Company's obligation to purchase from the sellers any of the remaining 70,000 shares which the sellers hold. This will result in the Company transferring $1.4 million from Temporary Equity to Permanent Equity in April 2011.

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

The following discussion should be read in conjunction with our audited consolidated financial statements and related notes thereto included in this quarterly report.

FORWARD LOOKING STATEMENT AND INFORMATION

The Company is including the following cautionary statement in this Form 10-Q to make applicable and take advantage of the safe harbor provision of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Certain statements in this Form 10-Q are forward-looking statements. Words such as "expects," "believes," "anticipates," "may," and "estimates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties are set forth below. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectation, beliefs or projections will result, be achieved, or be accomplished. In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in the view of the Company, could cause material adverse effects on the Company's financial condition and results of operations: the risks and uncertainties relating to our Internet operations, the impact and implementation of the sexually oriented business ordinances in the jurisdictions where our facilities operate, competitive factors, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, and the dependence on key personnel. The Company has no obligation to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

GENERAL

We operate in three businesses in the adult entertainment industry:

1. We own and/or operate upscale adult nightclubs serving primarily businessmen and professionals. Our nightclubs offer live adult entertainment and restaurant and bar operations. Through our subsidiaries, we currently own and/or operate a total of twenty-two adult nightclubs that offer live adult entertainment and restaurant and bar operations and one non adult-oriented nightclub. Nine of our clubs operate under the name "Rick's Cabaret"; four operate under the name "Club Onyx", upscale venues that welcome all customers but cater especially to urban professionals, businessmen and professional athletes; six clubs operate under the name "XTC Cabaret"; one club operates as "Tootsie's", one club operates as "Cabaret East" and one club operates as "Cabaret North". Our nightclubs are in Houston, Austin, San Antonio, Dallas and Fort Worth, Texas; Charlotte, North Carolina; Minneapolis, Minnesota; New York, New York; Miami Gardens, Florida; Philadelphia, Pennsylvania, Indianapolis, Indiana and Las Vegas, Nevada (property for sale). In addition to the above clubs, we intend to reopen, under a new concept, the former Rick's Cabaret in Austin, Texas, which has been closed for several months. No sexual contact is permitted at any of our locations.

2. We have Internet activities.

a) We currently own two adult Internet membership Web sites at www.CouplesTouch.com and www.xxxpassword.com. We acquire xxxpassword.com site content from wholesalers.

16

b) We operate an online auction site www.NaughtyBids.com. This site provides our customers with the opportunity to purchase adult products and services in an auction format. We earn revenues by charging fees for each transaction conducted on the automated site.

3. We operate a media division, including the leading trade magazine serving the multi-billion dollar adult nightclubs industry. This division also includes two industry trade shows, two other industry trade publications and more than 25 industry websites.

Our nightclub revenues are derived from the sale of liquor, beer, wine, food, merchandise, cover charges, membership fees, independent contractors' fees, commissions from vending and ATM machines, valet parking and other products and services. Our Internet revenues are derived from subscriptions to adult content Internet websites, traffic/referral revenues, and commissions earned on the sale of products and services through Internet auction sites, and other activities. Media revenues include sale of advertising content and revenues from an annual Expo convention. Our fiscal year end is September 30.

For several years, we have greatly reduced our usage of promotional pricing for membership fees for our adult entertainment web sites. This reduced our revenues from these web sites.

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 United States generally accepted accounting principles ("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 Company has updated references to GAAP in this Form 10-Q to reflect the guidance in the ASC. 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.

Accounts and Notes Receivable

Trade accounts receivable for the nightclub operation is primarily comprised of credit card charges, which are generally converted to cash in two to five days after a purchase is made. The media division's accounts receivable is primarily comprised of receivables for advertising sales and Expo registration. The Company's accounts receivable, other is comprised of employee advances and other miscellaneous receivables. The long-term portion of notes receivable are included in other assets in the accompanying consolidated balance sheets. The Company recognizes interest income on notes receivable based on the terms of the agreement and based upon management's evaluation that the notes receivable and interest income will be collected. The Company recognizes allowances for doubtful accounts or notes when, based on management judgment, circumstances indicate that accounts or notes receivable will not be collected.

Inventories

Inventories include alcoholic beverages, food, and Company merchandise. Inventories are carried at the lower of cost, average cost, which approximates actual cost determined on a first-in, first-out ("FIFO") basis, or market.

17

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, Goodwill and Other Intangibles Assets 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. All of the Company’s goodwill and intangible assets relate to the nightclub segment, except for $567,000 related to the media segment. 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

The Company reviews property and equipment and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of its carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets with definite lives are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair value. Assets are grouped at the lowest level for which there are identifiable cash flows, principally at the club level, when assessing impairment. Cash flows for our club assets are identified at the individual club level. The Company’s annual evaluation was performed as of September 30, 2010, based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. Certain of our acquisitions, specifically Las Vegas, Philadelphia and the original Rick’s Cabaret in Austin (to be reopened in May 2011 as a dance club), have been underperforming, principally due to the recent general economic downturn, especially in Las Vegas, but also due to certain specific operational issues, such as the change of concept in Philadelphia and the cab fare marketing issues in Las Vegas. We determined that there was a net asset impairment at September 30, 2010, relating to these three nightclub operations.

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. Marketable securities are adjusted to fair market value at each balance sheet date. 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.

Derivative Financial Instruments

The Company accounts for financial instruments that are indexed to and potentially settled in, its own stock, including stock put options, in accordance with the provisions of FASB ASC 815, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock. Under certain circumstances that would require the Company to settle these equity items in cash, and without regard to probability, FASB ASC 815 would require the classification of all or part of the item as a liability and the adjustment of that reclassified amount to fair value at each reporting date, with such adjustments reflected in the Company's consolidated statements of income. The first instrument to meet the requirements of FASB ASC 815 for derivative accounting occurred in the quarter ended June 30, 2009 when the Company renegotiated the payback terms of certain put options and agreed to pledge as collateral to certain holders a second lien on certain property.

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.

The Company recognizes Internet revenue from monthly subscriptions to its online entertainment sites when notification of a new or existing subscription and its related fee are received from the third party hosting company or from the credit card company, usually two to three days after the transaction has occurred. The monthly fee is not refundable. The Company recognizes Internet auction revenue when payment is received from the credit card as revenues are not deemed estimable nor collection deemed probable prior to that point.

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.

Sales and Liquor Taxes

The Company recognizes sales and liquor taxes paid as revenues and an equal expense in accordance with FASB ASC 605, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. Total sales and liquor taxes aggregated $1.6 million and $1.5 million for the three months ended March 31, 2011 and 2010, respectively.

Advertising and Marketing

Advertising and marketing expenses are primarily comprised of costs related to public advertisements and giveaways, which are used for promotional purposes. Advertising and marketing expenses are expensed as incurred and are included in operating expenses in the accompanying consolidated statements of income.

Income Taxes

Deferred income taxes are determined using the liability method in accordance with FASB ASC 740, Accounting for 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 issues 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 value of shares will be paid by the Company. The Company has accounted for these shares in accordance with the guidance established by FASB ASC 480 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.

Earnings Per Common Share

The Company computes earnings 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 (as adjusted for interest expense, that would no longer occur if the debentures were converted).

Stock Options

We utilize the fair value recognition provisions of FASB ASC 718, Compensation—Stock Compensation to account for stock options issued.

The stock option compensation costs recognized for the quarters ended March 31, 2011 and 2010 were $0 and $44,037, respectively, and were $0 and $88,074, respectively, for the six months then ended. There were no stock options grants nor exercises for the quarters ended March 31, 2011 and 2010.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2010

For the three months ended March 31, 2011, we had consolidated total revenues of $22.8 million compared to consolidated total revenues of $22.4 million for the three months ended March 31, 2010, an increase of $400,000 or 1.8%. The increase in total revenues was primarily attributable to clubs acquired during last year. Total revenues for same-location-same-period of club operations decreased to $21.1 million for the three months ended March 31, 2011 from $21.9 million for the same period ended March 31, 2010, principally due to the decrease in the Las Vegas club.

Following is a comparison of the Company's income statement for the quarters ended March 31, 2011 and 2010 with percentages compared to total revenue:

(in thousands)	2011	%	2010	%
Sales of alcoholic beverages	$ 9,205	40.3 %	$ 9,029	40.2 %
Sales of food and merchandise	1,982	8.7 %	1,782	7.9 %
Service revenues	10,396	45.5 %	10,225	45.6 %
Internet revenues	120	0.5 %	144	0.6 %
Media	192	0.8 %	311	1.4 %
Other	944	4.1 %	948	4.2 %
Total revenues	22,839	100.0 %	22,439	100.0 %
Cost of goods sold	2,807	12.3 %	2,639	11.8 %
Salaries and wages	4,762	20.9 %	4,411	19.7 %
Stock-based compensation	-	0.0 %	44	0.2 %
Taxes and permits	3,483	15.3 %	3,339	14.9 %
Charge card fees	374	1.6 %	370	1.6 %
Rent	1,076	4.7 %	1,028	4.6 %
Legal and professional	523	2.3 %	759	3.4 %
Advertising and marketing	1,176	5.1 %	1,507	6.7 %
Insurance	310	1.4 %	260	1.2 %
Utilities	425	1.9 %	415	1.8 %
Depreciation and amortization	1,125	4.9 %	903	4.0 %
Other	1,663	7.3 %	1,632	7.3 %
Total operating expenses	17,724	77.6 %	17,307	77.1 %
Income from continuing operations	5,115	22.4 %	5,132	22.9 %
Interest and other income	44	0.2 %	3	0.0 %
Interest expense	(1,110)	-4.9 %	(1,079)	-4.8 %
Gain on change in fair value of derivative instruments	333	1.5 %	385	1.7 %
Income before income taxes	$ 4,382	19.2 %	$ 4,441	19.8 %

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 and internet traffic purchases and webmaster payouts. Media cost of goods amounted to 29.8% and 33.7% for the quarters ended March 31, 2011 and 2010, respectively. The cost of goods sold for the club operations for the three months ended March 31, 2011 was 12.2% compared to 11.5% for the three months ended March 31, 2010. The cost of goods sold from our internet operations for the three months ended March 31, 2011 was 2.2% compared to 2.8% for the three months ended March 31, 2010. The cost of goods sold for same-location-same-period of club operations for the three months ended March 31, 2011 was 12.2%, compared to

11.6% for the same period ended March 31, 2010.

The increase in payroll and related costs, stated as “Salaries & Wages” above, was primarily due to the addition of the new clubs during 2010. Payroll for same-location-same-period of club operations was $3.6 million for each of the three months ended March 31, 2011 and 2010. Management currently believes that its labor and management staff levels are appropriate.

The decrease in legal and professional expense is principally due to a continuing labor lawsuit in New York which was less active in 2011.

The decrease in advertising and marketing expense is due to improvement in the marketing costs in Las Vegas.

The increase in interest expense was attributable to our obtaining an additional $2 million of net new debt in June 2010 to finance the purchase of new clubs.

Income taxes, as a percentage of income before taxes was 32.0% for each of the quarters ended March 31, 2011 and 2010.

The gain on the change in fair value of derivative instruments is due to the rising price of the Company’s common stock.

Operating income (exclusive of corporate overhead) for same-location-same-period of club operations was $6.5 million for each of the three months ended March 31, 2011 and 2010.

Our Media Division lost approximately $47,000 before income taxes for the quarter ended March 31, 2011 compared to a loss of approximately $91,000 in the 2010 quarter. As the economy improves, we believe the Media Division will become profitable as we control costs and increase marketing revenues.

Adjusted EBITDA for the three months ended March 31, 2011 and 2010 was $6.6 million and $6.4 million, respectively.

Adjusted EBITDA is a financial statement measure that was not derived in accordance with GAAP. We use adjusted EBITDA (earnings before interest expense, income taxes, depreciation, amortization and impairment charges) as a non-GAAP performance measure. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation, amortization and impairment charges. 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. Reconciliations from net income to adjusted EDITDA are provided below for the quarters ended March 31:

(in thousands)	2011	2010
Net income	$ 2,923	$ 2,945
Income taxes	1,406	1,423
Interest expense	1,110	1,079
Depreciation and amortization	1,125	903
Adjusted EBITDA	$ 6,564	$ 6,350

Our adjusted EBITDA does not include interest expense, income taxes, depreciation, amortization and impairment charges. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and our ability to generate revenues. Because we use capital assets, depreciation, amortization and impairment charges are also necessary elements of our costs. Also, the payment of income taxes is a necessary element of our operations. Therefore, any measures that exclude these elements have material limitations. To compensate for these limitations, we believe that it is appropriate to consider both net earnings determined under GAAP, as well as adjusted EBITDA, to evaluate our performance. Also, we separately analyze any significant fluctuations in interest expense, depreciation, amortization, impairment charges and income taxes.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2011 AS COMPARED TO THE SIX MONTHS ENDED MARCH 31, 2010

For the six months ended March 31, 2011, we had consolidated total revenues of $43.7 million compared to consolidated total revenues of $42.4 million for the six months ended March 31, 2010, an increase of $1.3 million or 3.0%. The increase in total revenues was primarily attributable to new club acquisitions in Fort Worth and Austin, Texas amounting to $2.9 million. Total revenues for same-location-same-period of club continuing operations decreased $1.8 million to $39.0 million for the six months ended March 31, 2011 from $40.8 million for the same period ended March 31, 2010, principally due to the decrease in the Las Vegas club of $3.1 million.

Following is a comparison of the Company's income statement for the six months ended March 31, 2011 and 2010 with percentages compared to total revenue: Following is an explanation of significant variances in the above amounts.

(in thousands)		2011	%			2010	%	
Sales of alcoholic beverages	$	17,564	40.2	%	$	17,078	40.2	%
Sales of food and merchandise		3,766	8.6	%		3,372	7.9	%
Service revenues		19,807	45.3	%		19,518	46.0	%
Internet revenues		246	0.6	%		289	0.7	%
Media		409	0.9	%		567	1.3	%
Other		1,905	4.4	%		1,620	3.8	%
Total revenues		43,697	100.0	%		42,444	100.0	%
Cost of goods sold		5,325	12.2	%		5,096	12.0	%
Salaries and wages		9,438	21.6	%		8,722	20.5	%
Stock-based compensation		-	0.0	%		88	0.2	%
Taxes and permits		6,553	15.0	%		6,179	14.6	%
Charge card fees		738	1.7	%		717	1.7	%
Rent		2,155	4.9	%		2,051	4.8	%
Legal and professional		1,009	2.3	%		1,409	3.3	%
Advertising and marketing		2,359	5.4	%		4,445	10.5	%
Insurance		617	1.4	%		524	1.2	%
Utilities		831	1.9	%		828	2.0	%
Depreciation and amortization		2,207	5.1	%		1,745	4.1	%
Other		3,240	7.4	%		3,177	7.5	%
Total operating expenses		34,472	78.9	%		34,981	82.4	%
Income from continuing operations		9,225	21.1	%		7,463	17.6	%

Interest income		56		0.1	%		6		0.0	%
Interest expense		(2,234	)	-5.1	%		(2,108	)	-5.0	%
Gain on change in fair value of derivative instruments		481		1.1	%		429		1.0	%
Income before income taxes	$	7,528		17.2	%	$	5,790		13.6	%

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 and internet traffic purchases and webmaster payouts. Media cost of goods amounted to 26.4% and 28.2% for the six months ended March 31, 2011 and 2009, respectively. The cost of goods sold for the club operations for the six months ended March 31, 2011 was 12.1% compared to 11.9% for the six months ended March 31, 2010. The cost of goods sold from our internet operations for the six months ended March 31, 2011 was 2.2% compared to 2.5% for the six months ended March 31, 2010. The cost of goods sold for same-location-same-period of club operations for the six months ended March 31, 2011 was 12.0%, compared to 11.8% for the same period ended March 31, 2010.

Payroll for same-location-same-period of club operations increased to $7.1 million for the six months ended March 31, 2011 from $7.0 million for the same period ended March 31, 2010 Management currently believes that its labor and management staff levels are appropriate.

The decrease in legal and professional expense is principally due to a continuing labor lawsuit in New York which was more active in 2010.

The decrease in advertising and marketing expense is due to improvement in the marketing costs in Las Vegas.

The increase in depreciation is principally due to the new clubs acquired.

The increase in interest expense was attributable to our obtaining an additional $2 million of net new debt in June 2010 to finance the purchase of new clubs.

The gain on the change in fair value of derivative instruments is due to the rising price of the Company's common stock.

Income taxes, as a percentage of income before taxes was 32.2% and 33.1% for the six months ended March 31, 2011 and 2009, respectively.

The increase in net income was primarily due to the decrease in expenses detailed above while increasing revenues, especially in the first quarter. Operating income (exclusive of corporate overhead) for same-location-same-period of club operations increased to $11.4 million for the six months ended March 31, 2011 from $9.8 million for same period ended March 31, 2010, or by 16.3%.

Our Media Division lost approximately $123,000 before income taxes for the six months ended March 31, 2011 compared to a loss of approximately $156,000 in the six months ended March 31, 2010. As the economy improves, we believe the Media Division will become profitable as we control costs and increase marketing revenues.

Adjusted EBITDA for the six months ended March 31, 2011 and 2010 was $11.9 million and $9.5 million, respectively.

Adjusted EBITDA is a financial statement measure that was not derived in accordance with GAAP. We use adjusted EBITDA (earnings before interest expense, income taxes, depreciation, amortization and impairment charges) as a non-GAAP performance measure. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation, amortization and impairment charges. 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. Reconciliations from net income to adjusted EDITDA are provided below for the six months ended March 31:

(in thousands)	2011	2010
Net income	$ 4,998	$ 3,727
Income taxes	2,423	1,917
Interest expense	2,234	2,108
Depreciation and amortization	2,207	1,745
Adjusted EBITDA	$ 11,862	$ 9,497

Our adjusted EBITDA does not include interest expense, income taxes, depreciation, amortization and impairment charges. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and our ability to generate revenues. Because we use capital assets, depreciation, amortization and impairment charges are also necessary elements of our costs. Also, the payment of income taxes is a necessary element of our operations. Therefore, any measures that exclude these elements have material limitations. To compensate for these limitations, we believe that it is appropriate to consider both net earnings determined under GAAP, as well as adjusted EBITDA, to evaluate our performance. Also, we separately analyze any significant fluctuations in interest expense, depreciation, amortization, impairment charges and income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital and Cash Flows

At March 31, 2011, we had working capital of approximately $6.3 million compared to approximately $7.9 million at September 30, 2010. The decrease is principally due to the purchase of a nightclub for $4.6 million in January 2011, payments on long-term debt and purchase of put options and related derivatives during the period.

Net cash provided by operating activities in the six months ended March 31, 2011 was $8.3 million compared to $7.8 million for the six months ended March 31, 2010. The increase in cash provided by operating activities was primarily due to the increase in net income for the six months ended March 31, 2011.

We used $5.1 million of cash in investing activities during the six months ended March 31, 2011 compared to $5.9 million during the six months ended March 31, 2010. The decrease was principally due to the acquisition of $1.0 million in marketable securities in 2010, compared to $505,000 in 2011. Cash of $4.6 million was used by financing activities during the six months ended March 31, 2011 compared to $2.8 million cash used during the six months ended March 31, 2010. The increase was primarily due to an increase in payments on long-term debt, purchases of treasury stock and put options and payment on the derivative.

We require capital principally for construction or acquisition of new clubs, renovation of older clubs and investments in technology. We may also utilize capital to repurchase our common stock as part of our share repurchase program.

Put Options

As part of certain of our acquisition transactions, we have entered into Lock-Up/Leak-Out Agreements with the sellers pursuant to which, on or after a contractual period after the closing date, the seller shall have the right, but not the obligation, to have us purchase from seller a certain number of our shares of common stock issued in the transactions in an amount and at a rate of not more than a contractual number of the shares per month (the "Monthly Shares") calculated at a price per share equal to a contractual value per share ("Value of the Rick's Shares"). At our election during any given month, we may either buy the Monthly Shares or, if we elect not to buy the Monthly Shares from the seller, then the seller shall sell the Monthly Shares in the open market. Any deficiency between the amount which the seller receives from the sale of the Monthly Shares and the value of the shares shall be paid by us within three (3) business days of the date of sale of the Monthly Shares during that particular month. Our obligation to purchase the Monthly Shares from the Seller shall terminate and cease at such time as the seller has received a contractual amount from the sale of the Rick's Shares and any deficiency. Under the terms of the Lock-Up/Leak-Out Agreements, the seller may not sell more than a contractual number of our shares per 30-day period, regardless of whether the seller "Puts" the shares to us or sells them in the open market or otherwise.

In April 2011, we settled certain cross-litigation with the former sellers of the Las Vegas club. As a result of the settlement, the Company paid the sellers approximately $1.6 million in cash as full settlement of its obligation under a debt instrument with a remaining principal and interest balance at the time of $2.5 million. The Company will record a gain of approximately $900,000 in April 2011 as a result of the settlement. In addition, the Company and the sellers agreed to cancel the Lock-up/Leak-out Agreement and the Company's obligation to purchase from the sellers any of the remaining 70,000 shares which the sellers hold. This will result in the Company transferring $1.4 million from Temporary Equity to Permanent Equity in April 2011. The following disclosures do not include these 70,000 shares.

The maximum obligation that could be owed if our stock were valued at zero is $4.8 million at March 31, 2011. If we are required to buy back any of these put options, the buy-back transaction will be purely a balance sheet transaction, affecting only Temporary Equity or Derivative Liability and Stockholders' Equity and will have no income statement effect. The only income statement effect from these put options is the "mark to market" valuation quarterly of the derivative liability.

Following is a schedule of the annual obligation (after the renegotiation) we would have if our stock price remains in the future at the closing market price on March 31, 2011 of $10.90 per share, of which there can be no assurance: (This includes the derivative financial instruments recognized in our balance sheet at March 31, 2011.)

For the Year Ended September 30:	(in thousands)	
2011	$	870
2012		1,656
2013		110
Total	$	2,636

Each $1.00 per share movement of our stock price has an aggregate effect of $200,000 on the total obligation.

Other Liquidity and Capital Resources

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.

On September 29, 2008, our Board of Directors authorized us to repurchase up to $5,000,000 worth of our common stock in the open market. During the six months ended March 31, 2011 and 2010, no shares were purchased under this program.

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. Our experience to date indicates that there does not appear to be a seasonal fluctuation in our Internet activities.

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 careful market research, (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, as is the case with the acquisitions of the clubs in Austin, Dallas and Fort Worth, Texas, Miami Gardens, Florida, Philadelphia, Pennsylvania and Indianapolis, Indiana, (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 acquire real estate in connection with club operations, although some clubs may be in leased premises, and/or (f) to enter into licensing agreements in strategic locations.

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.

We also expect to continue to grow our Internet profit centers. We plan to focus on high-margin Internet activities that leverage our marketing skills while requiring a low level of start-up cost and ongoing operating costs and refine and tune our Internet sites for better positioning in organic search rankings amongst the major search providers. We will restructure affiliate programs to provide higher incentives to our current affiliates to better promote our Internet sites, while actively seeking new affiliates to send traffic to our Internet sites.

The acquisition of additional clubs and/or internet operations 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of March 31, 2011, 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, 2010.

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"). 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 March 31, 2011 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.

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 has opted to collect the tax pending the outcome of its appeal. 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. The Attorney General of Texas has asked the Texas Supreme Court to review the case. On August 26, 2009, the Texas Supreme Court ordered both sides to submit briefs on the merits, while not yet deciding whether to grant the State's Petition for review. The State's brief was filed on September 25, 2009 and the Texas Entertainment Association's brief was filed on October 15, 2009. On February 12, 2010, the Supreme Court of Texas granted review of the Petition by the Attorney General of Texas. Oral argument of the matter was heard on March 25, 2010. The Company is awaiting a ruling from the Texas Supreme Court.

The Company has paid the tax for the first five calendar quarters under protest and expensed the tax in the accompanying 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 the subsequent quarters, as a result of the Third Court's decision, the Company accrued the fee, but did not pay the State. As of March 31, 2011, the Company has approximately $5.4 million million in accrued liabilities for this tax. Patron tax expense amounted to approximately $796,000 and $810,000 for the quarters ended March 31, 2011 and 2010, respectively.   The Company has paid more than $2 million to the State of Texas since the inception of the tax. The Company’s Texas clubs have filed a separate lawsuit against the State to demand repayment of the taxes. If the State’s appeal ultimately fails, the Company’s current amount paid under protest would be repaid or applied to future admission tax and other Texas state tax liabilities.

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, 2010, as such factors could materially affect the Company's business, financial condition or future results. In the three months ended March 31, 2011, there were no material changes to the risk factors disclosed in the Company's 2010 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 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On March 25, 2011, the Company issued 26,320 shares of common stock for debt aggregating $269,780. The securities were issued under the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and the rules and regulations promulgated thereunder. The issuance of securities did not involve a "public offering" based upon the following factors: (i) the issuance of the securities was an isolated private transaction; (ii) a limited number of securities were issued to a limited number of offerees; (iii) there was no public solicitation; (iv) each offeree was an "accredited investor"; (v) the investment intent of the offerees; and (vi) the restriction on transferability of the securities issued.

During the three months ended March 31, 2011, we purchased 25,000 shares of common stock in a private transaction at $8.00 per share. During the three months ended March 31, 2011, we purchased 33,000 shares of common stock from put option holders at prices ranging from $7.96 to $10.70 per share. Following is a summary of our purchases by month:

Period:	(a)	(b)	(c)	(d)
Month Ending	Total Number of Shares (or Units) Purchased	Average Price Paid per Share	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
January 31, 2011	36,000	$ 8.00	-	$ 3,414,746
February 28, 2011	11,000	$ 8.68	-	$ 3,414,746
March 31, 2011	11,000	$ 10.70	-	$ 3,414,746
Total for the three months ended March 31, 2011	58,000	$ 9.12	-	$ 3,414,746

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 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.

Exhibit 32.2 — Certification of 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.

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: May 10, 2011	By:	/s/ Eric S. Langan
	Eric S. Langan Chief Executive Officer and President	
Date: May 10, 2011	By:	/s/ Phillip K. Marshall
	Phillip K. Marshall Chief Financial Officer and Principal Accounting Officer	