RICKS CABARET INTERNATIONAL INC
Form 10QSB
August 15, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

[X] Quarterly report pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934; For the quarterly period ended: June 30, 2005

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-26958

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)	IRS Employer Identification No.)

10959 Cutten Road
Houston, Texas 77066
(Address of principal executive offices, including zip code)

(281) 397-6730
(Registrant's telephone number, including area code)

APPLICABLE ONLY TO CORPORATE ISSUERS

On August 9, 2005, there were 4,087,148 shares of common stock, $.01 par value, outstanding.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

RICK'S CABARET INTERNATIONAL, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

ASSETS

	06/30/05 (UNAUDITED)	9/30/04 (AUDITED)
CURRENT ASSETS		
Cash and cash equivalents	$ 477,729	$ 275,243
Accounts receivable		
Trade	89,625	72,909
Other, net	166,016	204,093
Marketable securities	31,143	122,350
Inventories	227,407	232,746
Prepaid expenses and other current assets	315,231	976,577
Net assets of discontinued operations	---	27,674
Total current assets	1,307,151	1,911,592
PROPERTY AND EQUIPMENT		
Buildings, land and leasehold improvements	12,534,604	9,394,619
Furniture and equipment	2,342,859	1,946,583
	14,877,463	11,341,202
Accumulated depreciation	(3,046,133)	(2,659,762)
Total property and equipment, net	11,831,330	8,681,440
OTHER ASSETS		
Goodwill, net	2,326,031	1,898,926

Other intangible assets, net	7,831,597	---
Other	491,934	432,658
Total other assets	10,649,562	2,331,584
Total assets	$ 23,788,043	$ 12,924,616

See accompanying notes to consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	06/30/05 (UNAUDITED)	9/30/04 (AUDITED)
CURRENT LIABILITIES		
Accounts payable - trade	$ 403,740	$ 291,650
Accrued liabilities	1,057,094	588,883
Current portion of long-term debt	1,041,826	492,310
Total current liabilities	2,502,660	1,372,843
Deferred gain on sale of subsidiary	163,739	163,739
Long-term debt less current portion	11,798,023	3,201,250
Total liabilities	14,464,422	4,737,832
COMMITMENTS AND CONTINGENCIES	---	---
MINORITY INTERESTS	47,169	40,808
STOCKHOLDERS' EQUITY		
Preferred stock, $.10 par, 1,000,000 shares authorized; none outstanding	---	---
Common stock, $.01 par, 15,000,000 shares authorized; 4,995,678 and 4,608,678 shares issued	49,957	46,087
Additional paid-in capital	12,446,049	11,273,149
Accumulated other comprehensive income	17,796	109,002
Accumulated deficit	(1,943,570)	(1,988,482)
Less 908,530 shares of common stock held in treasury, at cost	(1,293,780)	(1,293,780)
Total stockholders' equity	9,276,452	8,145,976
Total liabilities and stockholders' equity	$ 23,788,043	$ 12,924,616

See accompanying notes to consolidated financial statements.

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

	FOR THE THREE MONTHS ENDED JUNE 30, 2005	2004 (UNAUDITED)	F 2005
Continuing Operations:			
Revenues:			
Sales of alcoholic beverages	$ 1,363,425	$ 1,269,908	$ 3,766,469
Sales of food and merchandise	414,348	394,785	1,205,446
Service revenues	1,673,269	1,594,664	4,766,110
Internet revenues	200,876	200,300	568,836
Other	77,093	61,961	197,751
Total revenues	3,729,011	3,521,618	10,504,612
Operating expenses:			
Cost of goods sold	438,444	353,359	1,284,378
Salaries and wages	1,315,625	1,292,352	3,727,169
Other general and administrative:			
Taxes and permits	484,244	459,866	1,405,870
Charge card fees	52,353	64,423	167,649
Rent	128,874	97,800	306,697
Legal and professional	156,750	130,336	502,829
Advertising and marketing	185,963	246,246	543,566
Depreciation and amortization	141,532	122,315	408,773
Other	661,623	538,591	1,838,823
Total operating expenses	3,565,408	3,305,288	10,185,754
Income from continuing operations	163,603	216,330	318,858
Other income (expense):			
Interest income	6,868	6,270	27,611
Interest expense	(181,348)	(83,014)	(438,298
Gain from sale of marketable securities	-	2,929	-
Minority interests	53	(17,471)	(6,360
Other	143	451	(591
Net income (loss) from continuing operations	(10,681)	125,495	(98,780
Discontinued operations:			
Income (loss) from discontinued operations	-	(34,920)	(148,294
Gain on sale of discontinued operations	-	-	291,987
Net income (loss)	$ (10,681)	$ 90,575	$ 44,913
Basic and diluted earnings (loss) per share:			
Income (loss) from continuing operations	$ 0.00	$ 0.03	$ (0.03
Income (loss) from discontinued operations	0.00	(0.01)	0.04
Net income (loss), basic	$ 0.00	$ 0.02	$ 0.01

Net income (loss), diluted	$ 0.00	$ 0.02	$ 0.01
Weighted average number of common shares outstanding:			
Basic	3,967,148	3,700,148	3,816,592
Diluted	3,967,148	3,700,148	3,938,960

Comprehensive income for the three months ended June 30, 2005 and 2004 were ($24,029) and $19,874, and for the nine months were ($46,294) and $664,844, respectively. This includes the changes in available-for-sale securities and net income (loss).

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JUNE 30, 2005 AND 2004

	2005 (UNAUDITED)	2004 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 44,913	$ 698,087
Loss from discontinued operations	148,294	24,839
Gain on sale of discontinued operations	(291,987)	---
Income (loss) from continuing operations	(98,780)	722,926
Adjustments to reconcile income (loss) from continuing operations to cash provided by operating activities:		
Depreciation and amortization	408,773	369,666
Minority interests	6,360	6,925
Gain on sale of marketable securities	---	(19,807)
Common Stock issued for professional services	27,120	---
Changes in operating assets and liabilities	600,686	(666,995)
Cash provided by operating activities	944,159	412,715
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(2,469,609)	(288,625)
Proceeds from sale of marketable securities	---	21,460
Proceeds from sale of discontinued operations	550,000	---
Payments for notes receivable	21,303	3,023
Acquisitions of businesses, net of cash acquired	(2,587,846)	(265,000)
Cash used in investing activities	(4,486,152)	(529,142)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	474,650	---
Proceeds from long-term debt	4,062,000	300,000
Payments on long-term debt	(792,171)	(386,530)
Cash provided by (used in) financing activities	3,744,479	(86,530)

NET INCREASE (DECREASE) IN CASH	202,486	(202,957)
CASH AT BEGINNING OF PERIOD	275,243	563,559
CASH AT END OF PERIOD	$ 477,729	$ 360,602
CASH PAID DURING PERIOD FOR:		
Interest	$ 435,999	$ 244,431

Non-cash transactions:

During the quarter ended December 31, 2004, the Company purchased a 9,000 square foot office building for $516,499, payable with $90,039 cash at closing and a fifteen-year promissory note, bearing interest rate at 7%, in the amount of $426,460.

On January 18, 2005, the Company purchased a club in New York for $7,775,000, payable with $2,500,000 cash at closing and a five-year secured convertible promissory note, bearing interest rate at 4%, in the amount of $5,125,000, and transaction costs of $150,000.

On March 31, 2005, 12,000 shares of restricted common stock were issued as compensation pursuant to a consulting agreement for a total value of $27,120, and were issued as part of the transaction costs related to the club in New York.

On June 10, 2005, the Company purchased a club in Charlotte, North Carolina for $1,000,000, payable with a seven-year promissory note bearing interest at a rate of 7%, in the amount of $325,000 and 180,000 shares of common stock valued at $675,000.

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

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-QSB of Regulation S-B. 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, 2004 included in the Company's Annual Report on Form 10-KSB 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-KSB. 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 three months and nine months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending September 30, 2005.

2. STOCK OPTIONS

The Company accounts for its stock options under the recognition and measurement principles of Accounting Principles Board ("APB") opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standard ("SFAS") No. 123, Accounting for Stock Based Compensation, to stock-based employee compensation. The following presents pro forma net income (loss) and per share data as if a fair value accounting method had been used to account for stock-based compensation:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE NINE MON ENDED JUNE 30,
	2005	2004	2005
Net income (loss), as reported	$ (10,681)	$ 90,575	$ 44,913
Less total stock-based employee compensation expense determined under the fair value based method for all awards	(128,393)	(11,943)	(385,179)
Pro forma net income (loss)	$ (139,074)	$ 78,632	$ (340,266)
Earnings (loss) per share:			
Basic - as reported	$ 0.00	$ 0.02	$ 0.01
Diluted - as reported	$ 0.00	$ 0.02	$ 0.01
Basic and diluted - pro forma	$ (0.04)	$ 0.02	$ (0.09)

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

3. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

4. COMPREHENSIVE INCOME

The Company reports comprehensive income in accordance with the provisions of SFAS No. 130, Reporting Comprehensive Income. Comprehensive income consists of net income (loss) and gains (losses) on available-for-sale marketable securities.

5. COMMON STOCK

In January 2005, 20,000 stock options were exercised by the Company's employees and directors for $39,625. In March 2005, the Company issued 150,000 shares of common stock to an unrelated investor and received proceeds of $375,000, 12,000 shares of restricted common stock were issued at a value of $2.26 per share pursuant to a consulting agreement, and 25,000 stock options were exercised by the Company's employees for $60,025. On June 10, 2005, the Company issued 180,000 shares of common stock pursuant to the purchase of a club in Charlotte, North Carolina. See Note 9.

6. SEGMENT INFORMATION

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

	FOR THE THREE MONTHS ENDED JUNE 30, 2005	FOR THE THREE MONTHS ENDED JUNE 30, 2004	FOR THE NINE MONTHS ENDED JUNE 30, 2005	FOR THE NINE MONTHS ENDED JUNE 30, 2004
REVENUES				
Club operations	$ 3,528,135	$ 3,321,318	$ 9,935,776	$ 10,043,736
Internet websites	200,876	200,300	568,836	603,723
	$ 3,729,011	$ 3,521,618	$ 10,504,612	$ 10,647,459
NET INCOME (LOSS)				
Club operations	$ 466,967	$ 508,275	$ 1,414,536	$ 1,834,454
Internet websites	39,893	36,227	98,304	62,135
Corporate expenses	(517,541)	(419,007)	(1,611,620)	(1,173,663)
Discontinued operations	---	(34,920)	143,693	(24,839)
	$ (10,681)	$ 90,575	$ 44,913	$ 698,087

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

7. REVENUE RECOGNITION

The Company recognizes revenue from the sale of alcoholic beverages, food and merchandise, and services at the point-of-sale upon receipt of cash, check, or credit card charge. This includes daily, annual and lifetime VIP memberships.

Under Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, membership revenue should be deferred and recognized over the estimated membership usage period. Management estimates that the weighted average useful lives for memberships are 12 and 24 months for annual and lifetime memberships, respectively. The Company does not track membership usage by type of membership, however it believes these lives are appropriate and conservative, based on management's knowledge of its client base and membership usage at the clubs.

If the Company had deferred membership revenue and recognized it based on the lives above, the impact on revenue and net income (loss) recognized would have been an increase of approximately $1,721 and $13,675 for the three months and an increase of $3,591 and $37,424 for the nine months ended June 30, 2005 and 2004, respectively. This would have also resulted in a deferred revenue balance of approximately $345 and $22,126 as of June 30, 2005 and 2004, respectively. Management does not believe the impact of this difference in accounting treatment is material to the Company's annual and quarterly financial statements. However, the Company began to record revenues in such manner effective January 1, 2004, and hence as of June 30, 2005 deferred revenues of

$21,994 have been recorded related to such memberships.

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

8. LONG-TERM DEBT

On November 15 and 17, 2004, the Company borrowed $590,000 and $1,042,000, respectively, from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payments of principal and interest are $5,694 and $10,056, respectively. The note is secured by the Company's properties located at 2023 Sable Lane, San Antonio and at 410 N. Sam Houston PKWY E., Houston, Texas. On November 30, 2004, the Company borrowed $900,000 from an unrelated individual at an 11% annual interest rate over a 10 year term. The monthly payment of principal and interest is $9,290. The note is secured by the Company's properties located in 3501 Andtree, Austin and at 5718 Fairdale, Houston, Texas. On December 30, 2004, the Company borrowed $1,270,000 from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payment of principal and interest is $12,256. The note is secured by the Company's property located at 3113 Bering Drive, Houston, Texas.

8. LONG-TERM DEBT (continued)

The money received from this financing was used for the acquisition and renovation of the New York club.

On June 17, 2005, the Company borrowed $160,000 from a shareholder and $100,000 from an unrelated individual at an annual interest rate of 12% and 11% over 3 and 10 year term, respectively.

9. ACQUISITIONS AND DISPOSITIONS

On January 18, 2005, the Company completed the acquisition of Peregrine Enterprises, Inc., which operated the Paradise Club in Midtown Manhattan, New York (50 West 33rd Street). The total consideration was for $7.775 million for the assets and stock of the former Paradise Club, which had operated on the site for more than a decade. The transaction consisted of $2.5 million in cash and $5.125 million in a promissory note bearing simple interest at the rate of 4.0% per annum with a balloon payment at end of five years, part of which is convertible to restricted shares of Rick's Cabaret common stock at prices ranging from $4.00 to $7.50 per share, and transaction costs of $150,000. The results of operations of the club are included in our consolidated statement of operations from January 18, 2005.

The following information summarizes the initial allocation of fair values assigned to the assets and liabilities at the acquisition date based on a preliminary valuation. Subsequent adjustments may be recorded upon the completion of the valuation and the final determination of the purchase price allocation.

Current assets	$ 150,000
Discounted lease	446,486
Non-compete agreement	100,000
License	7,307,514
Current liabilities assumed	(229,000)
Net assets acquired	$ 7,775,000

The following unaudited pro forma information presents the results of operations as if the acquisition had occurred as of the beginning of the immediate preceding period. The pro forma information is not necessarily indicative of what would have occurred had the acquisition been made as of such periods, nor is it indicative of future results of operations. The pro forma amounts give effect to appropriate adjustments for the fair value of the assets acquired, amortization of intangibles and interest expense.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

9. ACQUISITIONS AND DISPOSITIONS (continued)

	FOR THE THREE MONTHS ENDED JUNE 30, 2005	2004	FOR THE NINE MONTHS ENDED JUNE 30, 2005	2004
Revenues	$ 3,729,011	$ 4,183,244	$ 10,990,612	$ 12,478,285
Net income (loss) from continuing operations	(10,681)	138,309	(378,780)	352,293
Net income (loss)	$ (10,681)	$ 100,868	$ (235,087)	$ 324,935
Net income (loss) per share - basic and diluted	$ 0.00	$ 0.03	$ (0.06)	$ 0.09

On March 31, 2005, the Company completed the sale of one of its clubs known as 'Rick's South' to MBG Acquisition LLC for $550,000 cash. In connection with the sale, the Company recorded a gain of $291,987. The club's business was accounted for as discontinued operations under accounting principles generally accepted in the United States of America and therefore, the club's results of operations and cash flows have been removed from the Company's consolidated results of continuing operations and cash flows for all periods presented in this document and such assets and liabilities as of September 30, 2004 have been netted in one line item on the balance sheet.

On June 10, 2005, the Company completed the acquisition of a 30,000 square foot nightclub in Charlotte, North Carolina, which was previously known as 'The Manhattan Club' (5300 Old Pineville Road). The venue has been renamed Rick's Cabaret. The purchase price was $1,000,000 through the issuance of 180,000 shares of restricted common stock valued at $675,000 and a seven-year promissory note of $325,000, bearing interest at a rate of 7%. The note is secured by liens upon the assets of and hereafter acquired assets of RCI Entertainment (North Carolina), Inc. The results of operations of the club are included in the

Company's consolidated statement of operations from February 1, 2005, when we assumed risk of loss for the club's operation under our management.

The following information summarizes the initial allocation of fair values assigned to the assets and liabilities at the acquisition date based on a preliminary valuation. Subsequent adjustments may be recorded upon the completion of the valuation and the final determination of the purchase price allocation.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

9. ACQUISITIONS AND DISPOSITIONS (continued)

Current assets	$ 104,595
Property & equipment, net depreciation	640,192
Goodwill	427,105
Other assets	1,510
Current liabilities assumed	(173,402)
Net assets acquired	$ 1,000,000

10. SUBSEQUENT EVENTS

On July 12, 2005, the Company organized RCI Dating Services, Inc. ("RCI Dating"), which operates as an addition to the Company's internet operations, to acquire CouplesClick.net from ClickMatch LLC ("ClickMatch"). The Company transferred its ownership in CouplesTouch.com to RCI Dating and as a result of the transaction the Company obtained an 85% interest in RCI Dating with the other 15% owned by ClickMatch.

On July 20, 2005, the Company issued 40,000 stock options to its Board of Directors.

On July 22, 2005, the Company entered into a secured convertible debenture with one of its shareholders for a principal sum of $660,000, which includes the loan on June 17, 2005, in the amount of $160,000. The term is for three years and interest rate is at 12% per annum. The debenture matures on August 1, 2008. The Company also issued 50,000 warrants at $3.00 per share in relation to this debenture. The debenture is secured by Company's ownership in Citation Land, LLC and RCI Holdings, Inc., both are wholly owned subsidiaries.

In July 2005, the Company received additional borrowing in the amount of $100,000 from the same unrelated individual who advanced $100,000 in June 2005, and with whom the Company had two existing notes. The term is for 10 years and the interest rate is 11% per annum. On August 15, 2005, the notes were amended and the amounts from June and July were included in one of the notes, for a combined total of $1,341,520.34 payable to this individual.

On July 27, 2005, the Company issued subscription agreements for 200,000 shares valued at $400,000.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN 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.

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FORWARD LOOKING STATEMENT AND INFORMATION

The Company is including the following cautionary statement in this Form 10-QSB 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-QSB 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 affects 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 presently conduct our business in two different areas of operation:

1. We own and operate upscale adult nightclubs serving primarily businessmen and professionals. Our nightclubs offer live adult entertainment, restaurant and bar operations. We own and operate eight adult nightclubs under the name "Rick's Cabaret" and "XTC" in Houston, Austin and San Antonio, Texas; Minneapolis, Minnesota; Charlotte, North Carolina, and New York, New York. We also own and operate a sports bar called "Hummers" and an upscale venue that caters especially to urban professionals, businessmen and professional athletes called "Club Onyx" in Houston. No sexual contact is permitted at any of our locations. On January 18, 2005, we completed the acquisition of Peregrine Enterprises, Inc., which operated the Paradise Club in Midtown Manhattan, New York (50 West 33rd Street). The results of operations of this new venue are included in the accompanying consolidated financial statements from the date of acquisition. Pro forma results of operations have been provided. The club is currently undergoing renovation with an anticipated grand-opening in September as 'Rick's Cabaret'. On March 31, 2005, we sold one of our clubs known as Rick's South. On June 10, 2005, we completed the acquisition of a 30,000 square foot nightclub in

Charlotte, North Carolina. We have changed the name of the club from 'The Manhattan Club' (5300 Old Pineville Road) to 'Rick's Cabaret'. The results of operations of the club are

included in our consolidated statement of operations from February 1, 2005, when we assumed risk of loss for the club's operations under our management.

2. We have extensive internet activities.

   a) We currently own three adult Internet membership Web sites at www.couplestouch.com, www.M4Mcouples.com, and www.xxxpassword.com. We acquire www.xxxpassword.com site content from wholesalers.

   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.

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. Our fiscal year end is September 30.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2005 AS COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2004

For the three months ended June 30, 2005, the Company had consolidated total revenues of $3,729,011 compared to consolidated total revenues of $3,521,618 for the three months ended June 30, 2004, an increase of $207,393 or 5.89%. The increase in total revenues was primarily attributable to the revenues generated by the Company's new club in Charlotte, North Carolina, and by the increase in revenues generated by the Company's existing club businesses in the amount of $206,817, a 6.23% increase from a year ago. Total revenues for same-location-same-period of club operations increased to $3,262,362 for the three months ended June 30, 2005 from $3,179,315 for same period ended June 30, 2004, or by 2.61%. The increase was primarily attributable to the increase in revenues in the Company's club operations.

The cost of goods sold for the three months ended June 30, 2005 was 11.76% of total revenues compared to 10.03% for the three months ended June 30, 2004. The increase was due primarily to the addition of Rick's clubs, which have a higher cost of goods sold, offset by a reduction in costs of maintaining our internet operations. The cost of goods sold for the club operations for the three

months ended June 30, 2005 was 12.19% compared to 10.22% for the three months ended June 30, 2004. We continue a program to improve margins from liquor and food sales and food service efficiency. The cost of goods sold from our internet operations for the three months ended June 30, 2005 was 4.22% compared to 6.88% for the three months ended June 30, 2004. The cost of goods sold for same-location-same-period of club operations for the three months ended June 30, 2005 was 12.10%, compared to 10.23% for the same period ended June 30, 2004.

Payroll and related costs for the three months ended June 30, 2005 were $1,315,625 compared to $1,292,352 for the three months ended June 30, 2004. Payroll for same-location-same-period of club operations decreased to $914,238 for the three months ended June 30, 2005 from $988,127 for the same period ended June 30, 2004. Management has implemented labor cost reduction initiative and currently believes that its labor and management staff levels are appropriate.

Other general and administrative expenses for the three months ended June 30, 2005 were $1,811,339 compared to $1,659,577 for the three months ended June 30, 2004. The increase was due primarily to increase in legal and professional, rent, indirect operating expenses, travel and lodging, and utilities from adding two new locations in New York, New York and Charlotte, North Carolina.

Interest expense for the three months ended June 30, 2005 was $181,348 compared to $83,014 for the three months ended June 30, 2004. The increase was attributable to the Company's obtaining new debt to finance the purchase of a club in New York. As of June 30, 2005, the balance of long-term debt was $12,839,849 compared to $3,923,356 a year earlier.

Net loss for the three months ended June 30, 2005 was ($10,681) compared to net income of $90,575 for the three months ended June 30, 2004. The decrease in net income was primarily due to increase in operating expenses due to managing two new locations in New York and North Carolina and increase in interest expenses related to the acquisition of a club in New York. Net income for same-location-same-period of club operations increased to $783,755 for the three months ended June 30, 2005 from $548,881 for same period ended June 30, 2004, or by 42.79%.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JUNE 30, 2005 AS COMPARED TO THE NINE MONTHS ENDED JUNE 30, 2004

For the nine months ended June 30, 2005, the Company had consolidated total revenues of $10,504,612 compared to consolidated total revenues of $10,647,459 for the nine months ended June 30, 2004, or a decrease of $142,847. The decrease in total revenues was primarily attributable to the decrease in overall revenues generated by the Company's club business in previous quarters plus a decrease of $34,887 by the Company's internet business. The Company's club operations in Houston benefited from the Super Bowl in the previous year. Total revenues for same-location-same-period of club operations decreased to $9,539,247 for the nine months ended June 30, 2005 from $9,610,536 for same period ended June 30, 2004, or by 0.74%. The decrease in internet revenues was due to the Company's transition from programs which generate high revenues with very low margins to programs which will produce higher margins from lower revenues.

The cost of goods sold for the nine months ended June 30, 2005 was 12.23% of total revenues compared to 11.53% for the nine months ended June 30, 2004. This increase is attributable to the addition of Rick's club, which have higher cost of goods sold, offset by reduction in costs of maintaining our internet operations. The cost of goods sold for the club operations for the nine months ended June 30, 2005 was 12.69% and 11.66% for the nine months ended June 30, 2004. The cost of goods sold from our internet operations for the nine months ended June 30, 2005 was 4.52% compared to 9.52% for the nine months ended June 30, 2004. The cost of goods sold for same-location-same-period of club operations for the nine months ended June 30, 2005 was 12.35%, compared to 11.61% for the same period ended June 30, 2004.

Payroll and related costs for the nine months ended June 30, 2005 were $3,727,169 compared to $3,676,524 for the nine months ended June 30, 2004. This increase was the result of additional personnel added to the Company's new club operations offset by labor cost reduction in the Company's existing club operations. Management currently believes that its labor and management staff levels are appropriate.

Other general and administrative expenses for the nine months ended June 30, 2005 were $5,174,207 compared to $4,809,424 for the nine months ended June 30, 2004. The increase was due primarily to an increase in legal and professional, rent, indirect operating expenses, travel and lodging, and utilities from opening new locations in New York, New York and Charlotte, North Carolina.

Interest expense for the nine months ended June 30, 2005 was $438,298 compared to $242,337 for the nine months ended June 30, 2004. The increase was attributable to the Company obtaining new debt to finance the purchase of a club in New York. As of June 30, 2005, the balance of long-term debt was $12,839,849 compared to $3,923,356 a year earlier.

Net income for the nine months ended June 30, 2005 was $44,913 compared to $698,087 for the nine months ended June 30, 2004. The decrease in net income was primarily due to the increase in operating expenses due to managing two new locations in New York and North Carolina and increase in interest expense related to the acquisitions of a club in New York. Net income for same-location-same-period of club operations increased to $1,973,572 for the nine months ended June 30, 2005 from $1,899,491 for same period ended June 30, 2004, or by 3.90%. Management currently believes that the Company is in position to continue to be profitable in fiscal 2005.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2005, the Company had a working capital deficit of ($1,195,509) compared to working capital of $538,749 at September 30, 2004. The decrease in working capital was primarily due to increases in accrued liabilities and current portion of long term debt, and a decrease in prepaid expenses and other current assets. The value of available-for-sale marketable securities decreased by $91,207, primarily due to market price fluctuation.

Net cash provided by operating activities in the nine months ended June 30, 2005 was $944,159 compared to net cash provided of $412,715 for the nine months ended June 30, 2004. The increase in cash provided by operating activities was primarily due to decreases in other current assets and increases in accounts payable and accrued expenses.

The Company used $4,486,152 and $529,142 of cash in investing activities during the nine months ended June 30, 2005 and 2004, respectively. $3,744,479 of cash was provided and $86,530 of cash was used in financing activities during the nine months ended June 30, 2005 and 2004, respectively.

The Company's need for capital historically was a result of construction or acquisition of new clubs, renovation of older clubs, and investments in technology. The Company also has historically utilized capital to repurchase its common stock as part of the Company's share repurchase program.

On September 16, 2003, the Company was authorized by its board of directors to repurchase up to $500,000 worth of the Company's common stock. No shares have been purchased under this plan.

On November 15 and 17, 2004, the Company borrowed $590,000 and $1,042,000, respectively, from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payments of principal and interest are $5,694 and $10,056, respectively. The note is secured by the Company's properties located at 2023 Sable Lane, San Antonio and at 410 N. Sam Houston PKWY E., Houston, Texas. On November 30, 2004, the Company borrowed $900,000 from an unrelated individual at an 11% annual interest rate over a 10 year term. The monthly payment of principal and interest is $9,290. The note is secured by the Company's properties located in 3501 Andtree, Austin and at 5718 Fairdale, Houston, Texas. On December 30, 2004, the Company borrowed $1,270,000 from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payment of principal and interest is $12,256. The note is secured by the Company's property located at 3113 Bering Drive, Houston, Texas. The money received from this financing was used for the acquisition and renovation of the New York club.

The Company entered into a promissory note on January 18, 2005, for $5,125,000 bearing simple interest at the rate of 4.0% per annum with a balloon payment at the end of five years, part of which is convertible to restricted shares of Rick's Cabaret common stock at prices ranging from $4.00 to $7.50 per share.

On June 10, 2005, the Company entered into a promissory note for $325,000 bearing interest at a rate of 7% per annum for a seven year term. The note is secured by liens upon the assets of and hereafter acquired assets of RCI Entertainment (North Carolina), Inc.

On June 17, 2005, the Company borrowed $160,000 from a shareholder and $100,000 from an unrelated individual at an annual interest rate of 12% and 11% over 3 and 10 year term, respectively.

In the opinion of management, working capital is not a true indicator of the financial status. Typically, businesses in the industry carry current liabilities in excess of current assets because the business receives substantially immediate payment for sales, with nominal receivables, while accounts payable and other current liabilities normally carry longer payment terms. Vendors and purveyors often remain flexible with payment terms providing businesses with opportunities to adjust to short-term business down turns. The Company considers the primary indicators of financial status to be the long-term trend of revenue growth and mix of sales revenues, overall cash flow, profitability from operations and the level of long-term debt.

We have not established lines of credit or financing other than 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.

In the event the sexually oriented business industry is required in all states to convert the entertainers who perform at our locations, from being independent contractors to employee status, we have prepared alternative plans that we believe will protect our profitability. We believe that the industry standard of treating the entertainers as independent contractors provides sufficient safe harbor protection to preclude payroll tax assessment for prior years.

The sexually oriented business industry is highly competitive with respect to price, service and location, as well as the professionalism of the entertainment. Although we believe 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.

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

The Company believes that its club operations can continue to grow organically and through careful entry into markets and demographic segments with high growth potential. Upon careful market research, we may open new clubs. As is the case with the acquisition of the New York and North Carolina clubs, we may 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. We may form joint ventures or partnerships to reduce start-up and operating costs, with our Company contributing assets in the form of our brand name and management expertise. We may also develop new club concepts that are consistent with our management and marketing skills. We may also acquire real estate in connection with club operations, although some clubs may be on leased premises.

We also expect to continue to grow our Internet profit centers and plan to focus in the future on high-margin activities that leverage our marketing skills while requiring a low level of start-up expense and ongoing operating costs.

Item 3. CONTROLS AND PROCEDURES.

As of the end of the period of this report, the Company's principal executive and principal financial officers carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic reports to the Securities and Exchange Commission. There have been no significant changes in the

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Company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

PART II OTHER INFORMATION

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended June 30, 2005, we completed the following transactions in reliance upon exemptions from registration under the Securities Act of 1933, as amended (the "Act") as provided in Section 4(2) thereof. All certificates issued in connection with these transactions were endorsed with a restrictive legend confirming that the securities could not be resold without registration under the Act or an applicable exemption from the registration requirements of the Act. None of the transactions involved a public offering, underwriting discounts or sales commissions. We believe that each person was a "qualified" investor within the meaning of the Act and had knowledge and experience in financial and business matters, which allowed them to evaluate the merits and risks of our securities. Each person was knowledgeable about our operations and financial condition.

On June 10, 2005, as a part of the purchase of a club in Charlotte, North Carolina, we issued 180,000 shares of common stock to the Seller. These shares were valued at $675,000.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

We held our Annual Meeting of Shareholders on June 27, 2005. Eric S. Langan, Robert L. Watters, Steven L. Jenkins, Alan Bergstrom and Travis Reese were nominated and elected as Directors with the following vote results at the shareholder meeting:

	For	Withheld
Eric S. Langan	3,016,606	15,493
Robert L. Watters	2,970,456	61,643
Steven L. Jenkins	2,970,506	55,593
Alan Bergstrom	2,970,456	55,643
Travis Reese	2,970,656	61,443

At the Annual Meeting, the Shareholders ratified Whitley Penn as the Company's Independent Registered Public Accounting Firm for the fiscal year ending September 30, 2005, with the following vote results:

3,016,624	VOTES FOR RATIFICATION
12,000	VOTES AGAINST RATIFICATION
3,500	ABSTAIN

While no other matters were presented at the Annual Meeting, the following votes were submitted by Shareholders with respect to any other business coming before the Annual Meeting of Shareholders:

2,935,172	VOTES FOR OTHER BUSINESS
85,872	VOTES AGAINST OTHER BUSINESS

11,080 ABSTAIN

The meeting was adjourned when all matters of business had been discussed.

Item 6. EXHIBITS.

Exhibit 31.1 - Certification of Chief Executive Officer and 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 and 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: August 15, 2005 By: /s/ Eric S. Langan

Eric S. Langan
Chief Executive Officer and Chief Financial Officer