

RICKS CABARET INTERNATIONAL INC  
Form 10-K  
December 14, 2011

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2011

Transition report under 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

State or other jurisdiction of (I.R.S. Employer incorporation or organization Identification No.)

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

(281) 397-6730

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

n/a

Title of each class

NASDAQ

Name of each exchange on which registered

Securities registered pursuant to section 12(g) of the Act:

Common Stock, \$.01 Par Value  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

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  No

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was \$85,463,000.

As of December 1, 2011, there were approximately 9,717,307 shares of common stock outstanding (excluding treasury shares).

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## PART I

### Item 1. Business.

#### INTRODUCTION

Rick's Cabaret International, Inc. was incorporated in the State of Texas in 1994. Through our subsidiaries, as of December 1, 2011, we own and/or operate a total of twenty-three adult nightclubs that offer live adult entertainment, restaurant and bar operations. Eight 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 operate under the name "XTC Cabaret"; one club operates as "Tootsie's Cabaret", one operates as "Cabaret North", one operates as "Downtown Cabaret", one operates as "Cabaret East" and one operates as "Temptations". Additionally, we own a 40% interest in "The Mansion" nightclub in Austin, Texas. 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 and Indianapolis, Indiana. We also own a media division, including the leading trade magazine serving the multi-billion dollar adult nightclubs industry. Included in the media division are two industry trade shows, two other industry trade publications and more than 25 industry websites.

We also own and operate premiere adult entertainment Internet websites. Our online entertainment sites are, CouplesTouch.com, NaughtyBids.com and xxxpassword.com. CouplesTouch.com is a personals site for those in the swinging lifestyle. Naughtybids.com is our online adult auction site. It contains consumer-initiated auctions for items such as adult videos, apparel, photo sets, adult paraphernalia and other erotica. There are typically approximately 10,000 active auctions at this site at any given time. We charge the seller a fee for each successful auction. The site xxxPassword.com features adult content licensed through Voice Media, Inc. Most of our sites use proprietary software platforms written by us to deliver the best experience to the user without being constrained by off-the-shelf software solutions.

Our website address is [www.Ricks.com](http://www.Ricks.com). We also have an investors' website – [www.ricksinvestor.com](http://www.ricksinvestor.com). Upon written request, we make available free of charge our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC under Securities Exchange Act of 1934, as amended. Information contained in the website shall not be construed as part of this Form 10-K.

References to "us," "Rick's" or the "Company" are to Rick's Cabaret International, Inc. and include our 100%-owned, 85%-owned and 51%-owned consolidated subsidiaries.

#### BUSINESS ACTIVITIES—NIGHTCLUBS

Prior to the opening of the first Rick's Cabaret in 1983 in Houston, Texas, the topless nightclub business was characterized by small establishments generally managed by their owner. Operating policies of these establishments were often lax, the sites were generally dimly lit, standards for performers' personal appearance and personality were not maintained and it was customary for performers to alternate between dancing and waiting tables. The quantity and quality of bar service was low and food was not frequently offered. Music was usually "hard" rock and roll, played at a loud level by a disc jockey. Usually, only cash was accepted. Many businessmen felt uncomfortable in such environments. Recognizing a void in the market for a first-class adult nightclub, we designed Rick's Cabaret to target the more affluent customer by providing a unique quality entertainment environment. The following summarizes our areas of operation that distinguish us:

Female Entertainers. Our policy is to maintain high standards for both personal appearance and personality for the entertainers and waitresses. Of equal importance is a performer's ability to present herself attractively and to talk with customers. We prefer that performers who work at our clubs be experienced entertainers. We make a determination as to whether a particular applicant is suitable based on such factors of appearance, attitude, dress, communication skills and demeanor. At all clubs, except for our Minnesota location, the entertainers are independent contractors. We do not schedule their work hours.

Management. We often recruit staff from inside the topless industry, as well as from large restaurant and club chains, in the belief that management with experience in the sector adds to our ability to grow and attract quality entertainers. Management with experience is able to train new recruits from outside the industry.

Compliance Policies/Employees. We have a policy of ensuring that our businesses are operated in conformity with local, state and federal laws. In particular, we have a "no tolerance" policy as to illegal drug use in or around the premises. Posters placed throughout the nightclubs reinforce this policy, as do periodic unannounced searches of the entertainers' lockers. Entertainers and waitresses who arrive for work are not allowed to leave the premises without the permission of management. If an entertainer does leave the premises, she is not allowed to return to work until the next day. We continually monitor the behavior of entertainers, waitresses and customers to ensure that proper standards of behavior are observed.

**Compliance Policies/Credit Cards.** We review all credit card charges made by our customers. We have in place a formal policy requiring that all credit card charges must be approved, in writing, by management before any charges are accepted. Management is trained to review credit card charges to ensure that the only charges approved for payment are for food, drink and entertainment.

**Food and Drink.** We believe that a key to the success of our branded adult nightclubs is a quality, first-class bar and restaurant operation to compliment our adult entertainment. We employ service managers who recruit and train professional wait staff and ensure that each customer receives prompt and courteous service. We employ chefs with restaurant experience. Our bar managers order inventory and schedule bar staff. We believe that the operation of a first class restaurant is a necessary component to the operation of a premiere adult cabaret, as is the provision of premium wine, liquor and beer in order to ensure that the customer perceives and obtains good value. At most locations, our restaurant operations provide business lunch buffets and full lunch and dinner menu service with hot and cold appetizers, salads, seafood, steak, and lobster. An extensive selection of quality wines is available at most locations.

**Controls.** Operational and accounting controls are essential to the successful operation of a cash intensive nightclub and bar business. At each location, we have designed and implemented internal procedures and controls to ensure the integrity of our operational and accounting records. Wherever practicable, we separate management personnel from all cash handling so that management is isolated from and does not handle any cash. We use a combination of accounting and physical inventory control mechanisms to maintain a high level of integrity in our accounting practices. Information technology plays a significant role in capturing and analyzing a variety of information to provide management with the information necessary to efficiently manage and control each nightclub. Deposits of cash and credit card receipts are reconciled each day to a daily income report. In addition, we review on a daily basis (i) cash and credit card summaries which tie together all cash and credit card transactions occurring at the front door, the bars in the club and the cashier station, (ii) a summary of the daily bartenders' check-out reports, and (iii) a daily cash requirements analysis which reconciles the previous day's cash on hand to the requirements for the next day's operations. These daily computer reports alert local management of any variances from expected financial results based on historical norms. We conduct a monthly overview of our financial condition and operating results.

**Atmosphere.** We maintain a high design standard in our facilities and decor. The furniture and furnishings in the nightclubs create the feeling of an upscale restaurant. The sound system provides quality sound at levels at which conversations can still take place. The environment is carefully monitored for music selection, entertainer and waitress appearance and all aspects of customer service on a continuous basis.

**VIP Room.** In keeping with our emphasis on serving the upper-end of the businessmen's market, some of our nightclubs include a VIP room, which is open to individuals who purchase memberships. A VIP room provides a higher level of service and luxury.

**Advertising and Promotion.** Our consumer marketing strategy is to position our "Rick's Cabaret" brand clubs as premiere entertainment facilities that provide exceptional topless entertainment in a fun, yet discreet, environment. We use a variety of highly targeted methods to reach our customers including hotel publications, local radio, cable television, newspapers, billboards, taxi-cab reader boards, and the Internet, as well as a variety of promotional campaigns. These campaigns ensure that the Rick's Cabaret name is kept before the public.

Rick's Cabaret has received a significant amount of media exposure over the years in national magazines such as Playboy, Penthouse, Glamour Magazine, The Ladies Home Journal, Time Magazine, Time Out New York, and Texas Monthly Magazine. Segments about Rick's have aired on national and local television programs such as "20/20", "Extra" and "Inside Edition", and we have provided entertainers for Pay-Per-View features as well. Business stories about Rick's Cabaret have appeared in Forbes, Newsweek, The Wall Street Journal, The New York Times, The New

York Post, Los Angeles Times, Houston Business Journal, and numerous other national and regional publications.

#### NIGHTCLUB LOCATIONS

We currently operate clubs under the name "Rick's Cabaret" in Houston, San Antonio and Fort Worth, Texas (2); Minneapolis, Minnesota; New York, New York; Austin, Texas and Indianapolis, Indiana. We also operate a similar nightclub under the name "Tootsie's Cabaret" in Miami Gardens, Florida. We also operate a total of four nightclubs (one in Houston, one in Dallas, one in Charlotte, North Carolina and one in Philadelphia, Pennsylvania), as "Club Onyx", upscale venues that welcome all customers but cater especially to urban professionals, businessmen and professional athletes. Additionally, we own six nightclubs that operate as "XTC Cabaret" in San Antonio, Austin, Dallas, Fort Worth and two in Houston, Texas, one that operates as "Cabaret East", one that operates as "Cabaret North" in Fort Worth and one that operates as "Downtown Cabaret" in Minneapolis. We also own a 40% interest in one club that operates as "The Mansion" in Austin. We sold our New Orleans, Louisiana nightclub in March 1999, but it continues to use the name "Rick's Cabaret" under a licensing agreement.

## RECENT TRANSACTIONS

### 2009 Acquisition

On September 30, 2009, the Company's subsidiary, RCI Entertainment (North FW), Inc. (the "Purchaser"), purchased 100% of the outstanding common shares of Cabaret North, Inc., a Texas corporation ("CNI"). CNI owns and operates an adult entertainment cabaret known as "Cabaret North" (the "Club"), located at 5316 Superior Parkway, Fort Worth, Texas 76106. The Company paid the Sellers total aggregate consideration of \$2.3 million (the "Purchase Price"). The Purchase Price was payable as follows:

(i) \$140,000 directly to CNI to be used for the payment of outstanding liabilities;

(ii) \$2 million to the Sellers; and

(iii) \$160,000 to be held in an escrow account to pay any liabilities or obligations of CNI which were incurred but unpaid as of Closing and to be held in connection with the outcome of certain pending litigation.

Also, at closing, each of the sellers entered into a five year Non-Competition Agreement, and CNI obtained a consent from its landlord to the sale of the Shares of CNI by the sellers to the purchaser and entered into an addendum to the lease agreement by and between CNI and the landlord of the premises where the Club is located.

### 2010 Acquisitions

#### Joy of Austin

On December 18, 2009, our 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 \$4.6 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:

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

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

(iii) \$530,000 evidenced by a five year secured promissory note to Karamalegos, bearing interest at the rate of 4.75% per annum and payable in 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 year secured promissory note to Polycrates, bearing interest at the rate of 4.75% per annum and payable in 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 year Non-Competition Agreement with RCI, and Polycrates entered into a three 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.

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.

This club is currently operated as Rick's Cabaret – North Austin.

#### Fort Worth Gentlemen's Club

On June 1, 2010, our wholly owned subsidiary RCI Entertainment (3315 North Freeway FW), Inc. (the "Purchaser") completed the acquisition of certain assets (the "Purchased Assets") of Restaurant Associates, Inc., a Texas corporation (the "Seller") pursuant to an Asset Purchase Agreement (the "Purchase Agreement") between Purchaser, Seller, Voldar, LLC, a Texas limited liability company ("Voldar"), Sherri Mofid ("Mofid"), John Faltynski ("Faltynski") and James Noryian ("Noryian"). The Purchase Agreement was executed and closed on June 1, 2010. Seller owned and operated an adult entertainment cabaret known as "Fort Worth Gentleman's Club" (the "Club"), located at 3315 North Freeway, Fort Worth, Texas 76106 (the "Real Property").

At closing, Purchaser paid Seller \$2.2 million cash by wire-transfer for the Purchased Assets. Purchaser also entered into two lease agreements, a lease agreement for the Real Property with Voldar (the "Voldar Lease") and a lease agreement for unimproved property adjacent to the Real Property (the "Adjacent Property") with Mofid (the "Mofid Lease"). Each lease agreement has a term of five years with one five year option to extend at the discretion of

Purchaser. Each lease agreement also grants Purchaser an option to purchase the respective properties from Voldar and Mofid. Purchaser may exercise the options to purchase any time after the twelfth month but before the expiration of the lease agreements (including their optional extensions). The option to purchase the Real Property and the option to purchase the Adjacent Property must be exercised contemporaneously. The purchase price upon exercise of the option to purchase the Real Property will range from \$4.5 million to \$5.2 million during the five-year term. The purchase price upon exercise of the option to purchase the Adjacent Property will range from \$500,000 to \$575,000 during the five-year term.

Also pursuant to the agreements described above, Mofid and Voldar entered into a five-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	\$ 42
Property and equipment and other assets	1,301
Non-compete agreement	200
Goodwill	613
Net assets acquired	\$ 2,156

The Company incurred approximately \$23,000 in legal costs associated with the acquisition, which are included in legal and professional expense in the accompanying consolidated statement of operations.

The results of operations of this entity are included in the Company's consolidated results of operations since June 1, 2010. 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.

This club is currently operated as XTC Cabaret—Fort Worth.

Golden Productions JGC Fort Worth, LLC

On July 16, 2010, our wholly owned subsidiary RCI Entertainment (Fort Worth), Inc. (the "Purchaser") completed the acquisition of certain assets (the "Purchased Assets") of Golden Productions JGC Fort Worth, LLC, a Texas limited liability company ("Golden Productions") and VCG Holding Corp., a Colorado corporation ("VCGH") pursuant to an Asset Purchase Agreement (the "Purchase Agreement") between Purchaser, Golden Productions and VCGH. The Purchase Agreement was executed and closed on July 16, 2010. Golden Productions owned and operated an adult entertainment cabaret previously known as "Jaguar's Gold Club Fort Worth" (the "Club"), located at 12325 Calloway Cemetery Road, Fort Worth, Texas, 76040 (the "Premises"). VCGH owned the improvements on the Premises, including the building and fixtures (the "Improvements"). The Club is now operated as "Cabaret East".

At closing, Purchaser paid aggregate consideration to Golden Production and/or VCGH for the Purchased Assets of (1) \$1 million cash by wire-transfer and (2) 467,497 shares of common stock, par value \$0.0001, of VCGH. Purchaser also entered into a ground lease agreement for the land where the Premises is located with Bryan S. Foster, the current owner of the land (the "Lease Agreement"). The Lease Agreement has a term of five years with four options to extend the lease for five years, at the discretion of Purchaser. The initial monthly rental rate during its term is \$20,000 per month. The Lease Agreement also grants Purchaser or its assigns an option to purchase the land from Mr. Foster, which option may be exercised any time after the 12th anniversary date of the Lease Agreement and before the expiration of the Lease Agreement (including its option term) at a purchase price of fair market value, but in no event less than \$3 million.

Also at closing, Purchaser entered a Non-Competition Agreement with Mr. Foster, pursuant to which Mr. Foster agreed (1) not to engage, directly or indirectly, in any adult entertainment or any business or enterprise which is the same as, or substantially the same as the Club, within a radius of 50 miles of Fort Worth, Texas, excluding Jaguars Gold Club Fort Worth #2 and the club operated in Dallas, Texas, doing business as Jaguars Gold Club and (2) not to solicit, divert, or hire away, or attempt to solicit, divert, or hire away from the employment of the Club any person employed by the Club or any entertainer who has performed at the Club. The term of the Non-Competition

Agreement ends on September 17, 2012.

The terms and conditions of the Purchase Agreement were the result of extensive arm's length negotiations between the parties.

This club is currently operated as Cabaret East.

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

(in thousands)

Property and equipment	\$ 1,959
Non-compete agreement	50
Net assets acquired	\$2,009

The Company incurred approximately \$22,000 in legal costs associated with the acquisition, which are included in legal and professional expense in the accompanying consolidated statement of operations.

The results of operations of this entity are included in the Company's consolidated results of operations since July 16, 2010. 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.

#### 2011 Acquisitions and Openings

##### RCI Dining Services (Airport Freeway)

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, for an aggregate 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. This club is currently operated as Rick's Cabaret.

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	289
SOB license	1,150
Net assets	\$4,565

##### Gold Club of Indy, LLC

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 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 \$1,657,000, net of certain accrued property taxes. This club is currently operated as Rick's Cabaret.

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.

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	\$750
Equipment and furniture	90
Noncompete	100
Goodwill	708
Net assets	\$1,648

The results of operations of this entity are included in the Company's consolidated results of operations since April 22, 2011. 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.

## Schiek's Palace Royale

Our wholly owned subsidiary, RCI Dining Services MN (4th Street), Inc., a Minnesota corporation ("RCI Minnesota"), entered into an Asset Purchase Agreement with Classic Affairs, Inc., a Minnesota corporation ("Classic"), and VCG Holding Corp., a Colorado corporation ("VCGH"). Classic is a wholly owned subsidiary of VCGH and owned and operated an adult entertainment cabaret known as "Schiek's Palace Royale," located at 115 South 4th Street, Minneapolis, Minnesota. The parties amended the Asset Purchase Agreement on April 14, 2011 and on May 31, 2011, which amendments reduced the purchase price and extended the closing date of the transaction. The Asset Purchase Agreement, as amended, closed July 28, 2011, whereby RCI Minnesota acquired substantially all of the assets associated or used in connection with the operation of Schiek's Palace Royale for the purchase price of \$2,875,000. This club is currently operated as Downtown Cabaret.

In connection with the Asset Purchase Agreement, on March 22, 2011, our wholly owned subsidiary, RCI Holdings, Inc. ("RCI Holdings"), entered into a Real Estate Purchase Agreement with 4th Street Partnership LLLP, a Minnesota limited liability limited partnership ("4th Street"), which owned the real property where Schiek's Palace Royale is located. The parties amended the Real Estate Purchase Agreement on May 31, 2011 and on July 26, 2011. The Real Estate Purchase Agreement, as amended, closed on July 28, 2011, whereby RCI Holdings acquired the real property where Schiek's Palace Royale is located for a purchase price of \$3,250,000.

At closing of the above transactions, VCGH, Classic, Troy Lowrie (the Chief Executive Officer of VCGH) and Micheal Ocello (the Chief Operating Officer and President of VCGH) each entered into a Non-Competition Agreement pursuant to which each agreed not to compete with RCI Minnesota, Schiek's Palace Royale or any of their affiliates for a period of five years in the seven county, twin-city metropolitan area of Minneapolis-St. Paul, Minnesota.

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	\$3,280
Equipment and furniture	526
Noncompete	300
Goodwill	2,023
Net assets	\$6,129

The results of operations of this entity are included in the Company's consolidated results of operations since July 28, 2011. 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.

## Fiscal Year 2012 Acquisition

## The New West

Our wholly owned subsidiary, RCI Dining Services (Tarrant County), Inc., a Texas Corporation ("RCI Tarrant County"), entered into an Agreement for Purchase and Sale of Membership Units with Fred McDonald ("Seller") for the purchase of 100% of the membership units of 12291 CBW, LLC ("12291 CBW"). 12291 CBW owned and operated an adult entertainment cabaret known as "The New West" located at 12291 Camp Bowie West, Aledo, Texas. The

Agreement for Purchase and Sale of Membership Units closed October 5, 2011, whereby RCI Tarrant County acquired the membership units of 12291 CBW for the purchase price of \$380,000. The Company now operates the BYOB club as "Temptations".

#### Silver City

On November 17, 2011, our wholly owned subsidiaries, RCI Dining Services (Stemmons), Inc. ("RCI Stemmons"), RCI Dining Services (Inwood), Inc. ("RCI Inwood") and RCI Dining Services (Stemmons 2), Inc. ("RCI Dining"), entered into a Stock Purchase Agreement with Mr. Thanasi Mantas, Green Star, Inc. ("Green Star"), Fine Dining Club, Inc. ("Fine Dining") and Blue Star Entertainment Inc. ("Blue Star"). Green Star owns and operates an adult entertainment cabaret known as "Silver City Cabaret," located at 7501 N. Stemmons Freeway, Dallas, Texas 75247. Fine Dining has a concession to provide alcohol sales and services to Green Star at the Silver City Cabaret. Blue Star holds a license to operate an adult cabaret at 1449 Inwood Road, Dallas, Texas 75247. Mr. Mantas owns 100% of the stock of Green Star, Fine Dining and Blue Star.

Pursuant to the Stock Purchase Agreement, Mr. Mantas will sell all the stock of Green Star, Fine Dining and Blue Star to RCI Stemmons, RCI Dining and RCI Inwood, respectively, for the aggregate purchase price of \$2,000,000 in the form of three promissory notes. Each of the promissory notes will be payable over 11 years and have an adjustable interest rate of 5.5%. The transaction will close on the later of January 2, 2012 or five business days after the purchasers have obtained all required licenses needed to operate the Silver City Cabaret and an adult cabaret to be located at 1449 Inwood Road.

Adelphi Group Ltd. (“Adelphi”) owns the real properties where the Silver City Cabaret is located, and PNYX Limited Partnership (“PNYX”) owns certain real properties at and adjacent to 1449 Inwood Road. In transactions related to the Stock Purchase Agreement, Adelphi and PNYX each entered into a real estate purchase agreement with our wholly owned subsidiary, RCI Holdings, Inc. (“RCI Holdings”), whereby (i) Adelphi agreed to sell the real properties where the Silver City Cabaret is located to RCI Holdings for the aggregate purchase price of \$6,500,000, including \$300,000 in cash and \$6,200,000 in the form of an adjustable 5.5% promissory note that is payable over 11 years, and (ii) PNYX agreed to sell certain real properties at and adjacent to 1449 Inwood Road for the aggregate purchase price of \$3,500,000, including \$1,200,000 in cash and \$2,300,000 in the form of an adjustable 5.5% promissory note that is payable over 11 years. The real estate transactions are to close contemporaneously with the Stock Purchase Agreement.

At closing of the above transactions, Mr. Mantas will enter into a Non-Competition Agreement providing for him to not compete with our subsidiaries by owning, participating or operating an establishment featuring adult entertainment within Dallas County and all contiguous counties.

#### BUSINESS ACTIVITIES—INTERNET ADULT ENTERTAINMENT WEB SITES

In 1999, we began adult Internet website operations. Our xxxPassword.com website features adult content licensed through Voice Media, Inc. We added CouplesTouch.com in 2002 as a dating site catering to those in the swinging lifestyle. In 2005 we purchased CouplesClick.net, a competing site of our CouplesTouch.com site, in order to broaden our membership throughout the United States. As part of this transaction, we organized RCI Dating Services, Inc., which operates as an addition to our internet operations, to acquire CouplesClick.net from ClickMatch, LLC. We transferred our ownership in CouplesTouch.com to RCI Dating and, as a result of the transaction, we obtained an 85% interest in RCI Dating, with the remaining 15% owned by ClickMatch.

Our Internet traffic is generated through the purchase of traffic from third-party adult sites or Internet domain owners and the purchase of banner advertisements or "key word" searches from Internet search engines. In addition, the bulk of our traffic now comes from search engines on which we don't pay for preferential listings. There are numerous adult entertainment sites on the Internet that compete with our sites.

#### BUSINESS ACTIVITIES—INTERNET ADULT AUCTION WEB SITES

Our adult auction site features erotica and other adult materials that are purchased in a bid-ask method. We charge the seller a fee for each successful auction. Where previously we operated six individual auctions sites, now we have combined these into one main site, NaughtyBids.com, to maximize our brand name recognition of this site. The site contains new and used adult oriented consumer initiated auctions for items such as adult videos, apparel, photo sets and adult paraphernalia. NaughtyBids.com has approximately 10,000 items for sale at any given time. NaughtyBids.com offers third party webmasters an opportunity to create residual income from web surfers through the NaughtyBids Affiliate Program, which pays third party webmasters a percentage of every closing auction sale in which the buyer originally came from the affiliate webmaster's site. There are numerous auction sites on the Internet that offer adult products and erotica.

BUSINESS ACTIVITIES – MEDIA GROUP

Our Media Group is the leading trade magazine serving the multi-billion dollar adult nightclubs industry. It also owns two industry trade shows, two other industry trade publications and more than 25 industry websites. Founded in 1991, Exotic Dancer is the only national business magazine serving the 3,800 adult nightclubs in North America, which have annual revenues in excess of \$2 billion, according to AVN Media Network. ED Publications currently publishes the Annual VIP Guide of adult nightclubs, touring entertainers and industry vendors, and Club Bulletin, a bimonthly news magazine for the owners and operators of adult nightclubs. ED Publications also produces the annual Gentlemen's Club Owners Expo, the only national convention for the adult nightclub and feature entertainment industries, and offers the exclusive ED VIP Club Card honored at more than 850 adult nightclubs.

## COMPETITION

The adult topless club entertainment business is highly competitive with respect to price, service and location. All of our nightclubs compete with a number of locally owned adult clubs, some of whose names may have name recognition that equals that of ours. While there may be restrictions on the location of a so-called "sexually oriented business", there are low barriers to entry into the adult cabaret entertainment market. The names "Rick's" and "Rick's Cabaret", "Tootsie's Cabaret", "XTC Cabaret" and "Club Onyx" are proprietary. We believe that the combination of our existing brand name recognition and the distinctive entertainment environment that we have created will allow us to compete effectively in the industry and within the cities where we operate. The sexually oriented business industry is highly competitive with respect to price, service and location, as well as the professionalism of the entertainers. Although we believe that we are well positioned to compete successfully, there can be no assurance that we will be able to maintain our high level of name recognition and prestige within the marketplace.

## GOVERNMENTAL REGULATIONS

We are subject to various federal, state and local laws affecting our business activities. In particular, in Texas the authority to issue a permit to sell alcoholic beverages is governed by the Texas Alcoholic Beverage Commission ("TABC"), which has the authority, in its discretion, to issue the appropriate permits. We presently hold a Mixed Beverage Permit and a Late Hour Permit at numerous Texas locations. Previously subject to annual renewal, the TABC recently changed to a renewal every two years, provided we have complied with all rules and regulations governing the permits. Renewal of a permit is subject to protest, which may be made by a law enforcement agency or by the public. In the event of a protest, the TABC may hold a hearing at which time the views of interested parties are expressed. The TABC has the authority after such hearing not to issue a renewal of the protested alcoholic beverage permit. Rick's has never been the subject of a protest hearing against the renewal of Permits. Minnesota, North Carolina, Nevada, Pennsylvania, Florida, and New York have similar laws that may limit the availability of a permit to sell alcoholic beverages or that may provide for suspension or revocation of a permit to sell alcoholic beverages in certain circumstances. It is our policy, prior to expanding into any new market, to take steps to ensure compliance with all licensing and regulatory requirements for the sale of alcoholic beverages as well as the sale of food.

In addition to various regulatory requirements affecting the sale of alcoholic beverages, in many cities where we operate, the location of a topless cabaret is subject to restriction by city ordinance. For example, topless nightclubs in Houston, Texas are subject to "The Sexually Oriented Business Ordinance", which contains prohibitions on the location of an adult cabaret (see "Legal Proceedings" herein). The prohibitions deal generally with distance from schools, churches, and other sexually oriented businesses and contain restrictions based on the percentage of residences within the immediate vicinity of the sexually oriented business. The granting of a Sexually Oriented Business Permit is not subject to discretion; the Business Permit must be granted if the proposed operation satisfies the requirements of the Ordinance. In all states where we operate, management believes we are in compliance with applicable city, county, state or other local laws governing the sale of alcohol and sexually oriented businesses.

## TRADEMARKS

Our rights to the tradenames "Rick's", "Rick's Cabaret", "Tootsie's Cabaret", "Club Onyx" and "XTC Cabaret" are established under common law, based upon our substantial and continuous use of these tradenames in interstate commerce since at least as early as 1987. We have registered our service mark, "RICK'S AND STARS DESIGN", with the United States Patent and Trademark Office. We have also obtained service mark registrations from the Patent and Trademark Office for the "RICK'S", "RICK'S CABARET", "CLUB ONYX", "XTC CABARET" and "EXOTIC DANCER" service marks. We also own the rights to numerous tradenames associated with our media division. There can be no assurance that the steps we have taken to protect our service marks will be adequate to deter misappropriation.

## EMPLOYEES AND INDEPENDENT CONTRACTORS

As of September 30, 2011, our subsidiaries had approximately 1,200 employees, of which approximately 120 are in management positions, including corporate and administrative and Internet operations and approximately 1,080 of which are engaged in entertainment, food and beverage service, including bartenders, waitresses, and entertainers. None of our employees are represented by a union. We consider our employee relations to be good. Additionally, as of September 30, 2011, we had independent contractor relationships with approximately 3,000 entertainers, who are self-employed and conduct business at our locations on a non-exclusive basis as independent contractors. Our entertainers in Minneapolis, Minnesota act as commissioned employees. 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 the sexually oriented business industry is required in all states to convert entertainers who are now independent contractors into employees.

## SHARE REPURCHASES

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5 million worth of our common stock. During the fiscal year ended September 30, 2011, we purchased 283,384 shares of common stock in the open market at prices ranging from \$6.45 to \$8.96 and during the fiscal year ended September 30, 2010, 57,450 shares of common stock in the open market at prices ranging from \$5.98 to \$6.41. Under the Board's authority, we have \$2,141,952 million remaining to purchase additional shares. During the fiscal year ending September 30, 2009, no shares were purchased under this program.

Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below before deciding to purchase shares of our common stock. If any of the events, contingencies, circumstances or conditions described in the risks below actually occurs, our business, financial condition or results of operations could be seriously harmed. The trading price of our common stock could, in turn, decline and you could lose all or part of your investment.

**Our Business Operations are Subject to Regulatory Uncertainties Which May Affect Our Ability to Continue Operations of Existing Nightclubs, Acquire Additional Nightclubs or Be Profitable**

Adult entertainment nightclubs are subject to local, state and federal regulations. Our business is regulated by local zoning, local and state liquor licensing, local ordinances and state and federal time place and manner restrictions. The adult entertainment provided by our nightclubs has elements of speech and expression and, therefore, enjoys some protection under the First Amendment to the United States Constitution. However, the protection is limited to the expression, and not the conduct of an entertainer. While our nightclubs are generally well established in their respective markets, there can be no assurance that local, state and/or federal licensing and other regulations will permit our nightclubs to remain in operation or profitable in the future.

Beginning January 1, 2008, our 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 we are 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 but taken no affirmative action to enforce that decision. 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 but on August 26, 2011, the Texas Supreme Court reversed the judgment of the Court of Appeals, ruling that the SOB Fee does not violate the First Amendment to the U.S. Constitution, and remanded the case to the District Court to determine whether the fee violates the Texas Constitution.

The TEA has appealed the Texas Supreme Court's decision to the U.S. Supreme Court (regarding the constitutionality of the fee under the First Amendment of the U.S. Constitution). Additionally, our claims regarding the Texas Constitution have not yet been addressed by the courts. We do not plan to make any payments of these taxes while the case is pending in the courts. However, we will continue to accrue and expense the potential tax liability on our financial statements, so any ultimate negative ruling will not have any effect on our income statement and will only affect our cash position. If the decision is ultimately found in our favor, as we believe it will be, then we will have a one-time gain of the entire amount previously expensed.

We have 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 we are accruing and expensing the liability. For the subsequent quarters, as a result of the Third Court’s decision, we accrued the fee, but did not pay the State. As of September 30, 2011, we have approximately \$6.8 million in accrued liabilities for this tax. We have paid more than \$2 million to the State of Texas since the inception of the tax. Our Texas clubs have filed a separate lawsuit against the State in which we raise additional challenges to the statute imposing the fee or tax and demand repayment of the taxes. The courts have not yet addressed these additional claims. If the State’s

appeal ultimately fails or we are successful in the remaining litigation, our current amount paid under protest would be repaid or applied to future admission tax and other Texas state tax liabilities.

Our Business has been, and may Continue to be, Adversely Affected by Conditions in the U.S. Financial Markets and Economic Conditions Generally

Our nightclubs are often acquired with a purchase price based on historical EBITDA. This results in certain nightclubs carrying a substantial amount of intangible value, mostly allocated to licenses and goodwill. Generally accepted accounting principles require an annual impairment review of these indefinite lived assets. If difficult market and economic conditions continue over the next year and/or we experience a decrease in revenue at one or more nightclubs, we could incur a decline in fair value of one or more of our nightclubs. This could result in future impairment charges of up to the total value of the indefinite lived intangible assets.

### We May Need Additional Financing or Our Business Expansion Plans May Be Significantly Limited

If cash generated from our operations is insufficient to satisfy our working capital and capital expenditure requirements, we will need to raise additional funds through the public or private sale of our equity or debt securities. The timing and amount of our capital requirements will depend on a number of factors, including cash flow and cash requirements for nightclub acquisitions. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our then-existing shareholders will be reduced. We cannot assure you that additional financing will be available on terms favorable to us, if at all. Any future equity financing, if available, may result in dilution to existing shareholders, and debt financing, if available, may include restrictive covenants. Any failure by us to procure timely additional financing will have material adverse consequences on our business operations.

### There is Substantial Competition in the Nightclub Entertainment Industry, Which May Affect Our Ability to Operate Profitably or Acquire Additional Clubs

Our nightclubs face competition. Some of these competitors may have greater financial and management resources than we do. Additionally, the industry is subject to unpredictable competitive trends and competition for general entertainment dollars. There can be no assurance that we will be able to remain profitable in this competitive industry.

### Risk of Adult Nightclubs Operations

Historically, the adult entertainment, restaurant and bar industry has been an extremely volatile industry. The industry tends to be extremely sensitive to the general local economy, in that when economic conditions are prosperous, entertainment industry revenues increase, and when economic conditions are unfavorable, entertainment industry revenues decline. Coupled with this economic sensitivity are the trendy personal preferences of the customers who frequent adult cabarets. We continuously monitor trends in our customers' tastes and entertainment preferences so that, if necessary, we can make appropriate changes which will allow us to remain one of the premiere adult cabarets. However, any significant decline in general corporate conditions or uncertainties regarding future economic prospects that affect consumer spending could have a material adverse effect on our business. In addition, we have historically catered to a clientele base from the upper end of the market. Accordingly, further reductions in the amounts of entertainment expenses allowed as deductions from income under the Internal Revenue Code of 1954, as amended, could adversely affect sales to customers dependent upon corporate expense accounts.

### Permits Relating to the Sale of Alcohol

We derive a significant portion of our revenues from the sale of alcoholic beverages. States in which we operate may have laws which may limit the availability of a permit to sell alcoholic beverages or which may provide for suspension or revocation of a permit to sell alcoholic beverages in certain circumstances. The temporary or permanent suspension or revocations of any such permits would have a material adverse effect on our revenues, financial condition and results of operations. In all states where we operate, management believes we are in compliance with applicable city, county, state or other local laws governing the sale of alcohol.

### Activities or Conduct at our Nightclubs may Cause us to Lose Necessary Business Licenses, Expose us to Liability, or Result in Adverse Publicity, Which may Increase our Costs and Divert Management's Attention from our Business

We are subject to risks associated with activities or conduct at our nightclubs that are illegal or violate the terms of necessary business licenses. Our nightclubs operate under licenses for sexually oriented businesses and some protection under the First Amendment to the U.S. Constitution. While we believe that the activities at our nightclubs comply with the terms of such licenses, and that the element of our business that constitutes an expression of free

speech under the First Amendment to the U.S. Constitution is protected, activities and conduct at our nightclubs may be found to violate the terms of such licenses or be unprotected under the U.S. Constitution. This protection is limited to the expression and not the conduct of an entertainer. An issuing authority may suspend or terminate a license for a nightclub found to have violated the license terms. Illegal activities or conduct at any of our nightclubs may result in negative publicity or litigation. Such consequences may increase our cost of doing business, divert management's attention from our business and make an investment in our securities unattractive to current and potential investors, thereby lowering our profitability and our stock price.

We have developed comprehensive policies aimed at ensuring that the operation of each nightclub is conducted in conformance with local, state and federal laws. We have a "no tolerance" policy on illegal drug use in or around the facilities. We continually monitor the actions of entertainers, waitresses and customers to ensure that proper behavior standards are met. However, such policies, no matter how well designed and enforced, can provide only reasonable, not absolute, assurance that the policies' objectives are being achieved. Because of the inherent limitations in all control systems and policies, there can be no assurance that our policies will prevent deliberate acts by persons attempting to violate or circumvent them. Notwithstanding the foregoing limitations, management believes that our policies are reasonably effective in achieving their purposes.

### Our Acquisitions may Result in Disruptions in our Business and Diversion of Management's Attention

We have made and may continue to make acquisitions of complementary nightclubs, restaurants or related operations. Any acquisitions will require the integration of the operations, products and personnel of the acquired businesses and the training and motivation of these individuals. Such acquisitions may disrupt our operations and divert management's attention from day-to-day operations, which could impair our relationships with current employees, customers and partners. We may also incur debt or issue equity securities to pay for any future acquisitions. These issuances could be substantially dilutive to our stockholders. In addition, our profitability may suffer because of acquisition-related costs or amortization, or impairment costs for acquired goodwill and other intangible assets. If management is unable to fully integrate acquired business, products or persons with existing operations, we may not receive the benefits of the acquisitions, and our revenues and stock trading price may decrease.

### We Must Continue to Meet NASDAQ Global Market Continued Listing Requirements or We Risk Delisting

Our securities are currently listed for trading on the NASDAQ Global Market. We must continue to satisfy NASDAQ's continued listing requirements or risk delisting which would have an adverse effect on our business. If our securities are ever de-listed from NASDAQ, they may trade on the over-the-counter market, which may be a less liquid market. In such case, our shareholders' ability to trade or obtain quotations of the market value of shares of our common stock would be severely limited because of lower trading volumes and transaction delays. These factors could contribute to lower prices and larger spreads in the bid and ask prices for our securities. There is no assurance that we will be able to maintain compliance with the NASDAQ continued listing requirements.

### In The Future, We Will Incur Significant Increased Costs as a Result of Operating as a Public Company, and Our Management Will Be Required to Devote Substantial Time to New Compliance Initiatives

In the future, we will incur significant legal, accounting and other expenses. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), as well as new rules subsequently implemented by the SEC, have imposed various new requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantial costs to maintain the same or similar coverage.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, commencing in fiscal 2008, we have been required to perform system and process evaluation and testing on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Then, beginning in fiscal 2010, our independent registered public accounting firm has reported on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. In the future, our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

### Uninsured Risks

We maintain insurance in amounts we consider adequate for personal injury and property damage to which the business of the Company may be subject. However, there can be no assurance that uninsured liabilities in excess of the coverage provided by insurance, which liabilities may be imposed pursuant to the Texas "Dram Shop" statute or similar "Dram Shop" statutes or common law theories of liability in other states where we operate or expand. For example, the Texas "Dram Shop" statute provides a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to such person if it was apparent to the server that the individual being sold, served or provided with an alcoholic beverage was obviously intoxicated to the extent that he presented a clear danger to himself and others. An employer is not liable for the actions of its employee who over-serves if (i) the employer requires its employees to attend a seller training program approved by the TABC; (ii) the employee has actually attended such a training program; and (iii) the employer has not directly or indirectly encouraged the employee to violate the law. It is our policy to require that all servers of alcohol working at our clubs in Texas be certified as servers under a training program approved by the TABC, which certification gives statutory immunity to the sellers of alcohol from damage caused to third parties by those who have consumed alcoholic beverages at such establishment pursuant to the Texas Alcoholic Beverage Code. There can be no assurance, however, that uninsured liabilities may not arise in the markets in which we operate which could have a material adverse effect on the Company.

#### Limitations on Protection of Service Marks

Our rights to the tradenames "Rick's", "Rick's Cabaret", "Tootsie's Cabaret", "Club Onyx", and "XTC Cabaret" are established under the common law based upon our substantial and continuous use of these tradenames in interstate commerce since at least as early as 1987. "RICK'S AND STARS DESIGN" logo, "RICK'S CABARET", "CLUB ONYX", "XTC CABARET" and "EXOTIC DANCER" are registered through service mark registrations issued by the United States Patent and Trademark Office. We also own the rights to numerous tradenames associated with our media division. There can be no assurance that these steps we have taken to protect its Service Marks will be adequate to deter misappropriation of its protected intellectual property rights. Litigation may be necessary in the future to protect our rights from infringement, which may be costly and time consuming. The loss of the intellectual property rights owned or claimed by us could have a material adverse affect on our business.

#### Anti-takeover Effects of Issuance of Preferred Stock

The Board of Directors has the authority to issue up to 1,000,000 shares of Preferred Stock in one or more series, to fix the number of shares constituting any such series, and to fix the rights and preferences of the shares constituting any series, without any further vote or action by the stockholders. The issuance of Preferred Stock by the Board of Directors could adversely affect the rights of the holders of common stock. For example, such issuance could result in a class of securities outstanding that would have preferences with respect to voting rights and dividends and in liquidation over the common stock, and could (upon conversion or otherwise) enjoy all of the rights appurtenant to common stock. The Board's authority to issue Preferred Stock could discourage potential takeover attempts and could delay or prevent a change in control of the Company through merger, tender offer, proxy contest or otherwise by making such attempts more difficult to achieve or more costly. There are no issued and outstanding shares of Preferred Stock; there are no agreements or understandings for the issuance of Preferred Stock, and the Board of Directors has no present intention to issue Preferred Stock.

#### We Do Not Anticipate Paying Dividends on Common Shares in the Foreseeable Future

Since our inception we have not paid any dividends on our common stock and we do not anticipate paying any dividends in the foreseeable future. We expect that future earnings, if any, will be used for working capital and to finance growth.

#### Future Sales of Our Common Stock May Depress Our Stock Price

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market, or as a result of the perception that these sales could occur. In addition, these factors could make it more difficult for us to raise funds through future offerings of common stock.

#### Our Stock Price Has Been Volatile and May Fluctuate in the Future

The trading price of our securities may fluctuate significantly. This price may be influenced by many factors, including:

- our performance and prospects;
- the depth and liquidity of the market for our securities;
- sales by selling shareholders of shares issued or issuable in connection with certain convertible notes;
- investor perception of us and the industry in which we operate;
- changes in earnings estimates or buy/sell recommendations by analysts;
- general financial and other market conditions; and

- domestic economic conditions.

Public stock markets have experienced, and may experience, extreme price and trading volume volatility. These broad market fluctuations may adversely affect the market price of our securities.

#### Our Management Controls a Significant Percentage of Our Current Outstanding Common Stock and Their Interests May Conflict With Those of Our Shareholders

As of December 1, 2011, our Directors and executive officers and their respective affiliates collectively and beneficially owned approximately 15.3% of our outstanding common stock, including all warrants exercisable within 60 days. This concentration of voting control gives our Directors and executive officers and their respective affiliates substantial influence over any matters which require a shareholder vote, including, without limitation, the election of Directors, even if their interests may conflict with those of other shareholders. It could also have the effect of delaying or preventing a change in control of or otherwise discouraging a potential acquirer from attempting to obtain control of us. This could have a material adverse effect on the market price of our common stock or prevent our shareholders from realizing a premium over the then prevailing market prices for their shares of common stock.

#### We are Dependent on Key Personnel

Our future success is dependent, in a large part, on retaining the services of Mr. Eric Langan, our President and Chief Executive Officer. Mr. Langan possesses a unique and comprehensive knowledge of our industry. While Mr. Langan has no present plans to leave or retire in the near future, his loss could have a negative effect on our operating, marketing and financial performance if we are unable to find an adequate replacement with similar knowledge and experience within our industry. We maintain key-man life insurance with respect to Mr. Langan. Although Mr. Langan is under an employment agreement (as described herein), there can be no assurance that Mr. Langan will continue to be employed by us. The loss of Mr. Langan could have a negative effect on our operating, marketing, and financing performance.

#### Cumulative Voting is Not Available to Stockholders

Cumulative voting in the election of Directors is expressly denied in our Articles of Incorporation. Accordingly, the holder or holders of a majority of the outstanding shares of our common stock may elect all of our Directors. Management's large percentage ownership of our outstanding common stock helps enable them to maintain their positions as such and thus control of our business and affairs.

#### Our Directors and Officers Have Limited Liability and Have Rights to Indemnification

Our Articles of Incorporation and Bylaws provide, as permitted by governing Texas law, that our Directors and officers shall not be personally liable to us or any of our stockholders for monetary damages for breach of fiduciary duty as a Director or officer, with certain exceptions. The Articles further provide that we will indemnify our Directors and officers against expenses and liabilities they incur to defend, settle, or satisfy any civil litigation or criminal action brought against them on account of their being or having been its Directors or officers unless, in such action, they are adjudged to have acted with gross negligence or willful misconduct.

The inclusion of these provisions in the Articles may have the effect of reducing the likelihood of derivative litigation against Directors and officers, and may discourage or deter stockholders or management from bringing a lawsuit against Directors and officers for breach of their duty of care, even though such an action, if successful, might otherwise have benefited us and our stockholders.

The Articles provide for the indemnification of our officers and Directors, and the advancement to them of expenses in connection with any proceedings and claims, to the fullest extent permitted by Texas law. The Articles include related provisions meant to facilitate the indemnitee's receipt of such benefits. These provisions cover, among other things: (i) specification of the method of determining entitlement to indemnification and the selection of independent counsel that will in some cases make such determination, (ii) specification of certain time periods by which certain payments or determinations must be made and actions must be taken, and (iii) the establishment of certain presumptions in favor of an indemnitee.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

#### Other Risk Factors May Adversely Affect Our Financial Performance

Other risk factors that could cause our actual results to differ materially from those indicated in the forward-looking statements by affecting, among many things, pricing, consumer spending and consumer confidence, include, without limitation, changes in economic conditions and financial and credit markets, credit availability, increased fuel costs and availability for our employees, customers and suppliers, health epidemics or pandemics or the prospects of these events (such as reports on avian flu), consumer perceptions of food safety, changes in consumer tastes and behaviors, governmental monetary policies, changes in demographic trends, terrorist acts, energy shortages and rolling blackouts, and weather (including, major hurricanes and regional snow storms) and other acts of God.

#### Item 1B. Unresolved Staff Comments

None

#### Item 2. Properties.

Our principal executive office is located at 10959 Cutten Road, Houston, Texas 77066, and consists of a 9,000 square feet office/warehouse building. We purchased this property in December 2004 for \$512,739, payable with \$86,279 cash at closing and \$426,460 in a promissory note carrying 7% interest and a 15 year term. The monthly payment is \$3,834. As of September 30, 2011, the balance of the mortgage was \$287,576. The last mortgage payment is due in 2019. We believe that our offices are adequate for our present needs and that suitable space will be available to accommodate our future needs.

We own the real property for seven locations of Rick's Cabaret (in Houston, Austin, San Antonio, Minneapolis, Indianapolis and Fort Worth (2)), three Club Onyx locations, (in Houston, Dallas and Philadelphia) and three locations of XTC (in Austin, Dallas and San Antonio). We also own the property for a location in Minneapolis, operating as Downtown Cabaret. In Houston, we also own one property which is leased to a third party. We lease property for our XTC South (Houston), XTC North (Houston), Rick's Cabaret-New York, Club Onyx Charlotte, Cabaret North (Fort Worth), XTC Cabaret (Fort Worth), Cabaret East (Fort Worth) and Tootsie's Cabaret (Miami Gardens, Florida) locations.

PROPERTIES WE OWN:

1. Club Onyx, located on Bering Drive in Houston, has an aggregate 12,300 square feet of space. In December 2004, we paid off the old mortgage and obtained a new one with an initial balance of \$1.3 million and an interest rate of 10% per annum over a 10 year term. The money received from this new note was used to finance the acquisition of the New York club. As of September 30, 2011, the balance of the mortgage was \$1.1 million. During fiscal year 2011, we paid \$12,256 in monthly principal and interest payments. The monthly payment is calculated based on a 20 year amortization schedule. The last mortgage payment is due in 2015.
2. The Rick's Cabaret, located on North Belt Drive in Houston, has 12,000 square feet of space. In November 2004, we obtained a mortgage using this property as collateral. The principal balance of the new mortgage was \$1 million, with an annual interest rate of 10% over a 10 year term. The money received from this new note was used to finance the acquisition of the New York club. As of September 30, 2011, the balance of the mortgage was \$881,995. The monthly payment of principal and interest is \$10,056. The monthly payment is calculated based on a 20 year amortization schedule. The last mortgage payment is due in 2014.
3. The Rick's Cabaret located in Minneapolis has 15,400 square feet of space. The balance, as of September 30, 2011, that we owe on the mortgage is \$1.0 million and the interest rate is 9%. We pay \$7,500 in monthly interest payments. The last mortgage payment is due in 2013.
4. The property for our XTC Cabaret nightclub in Austin has 8,600 square feet of space, which sits on 1.2 acres of land. In August 2005, we restructured the mortgage by extending the term to 10 years. The balance of this mortgage as of September 30, 2011 is \$131,079 with an interest rate of 11% and monthly principal and interest payments of \$3,445. We also have an additional mortgage on the property which we obtained in November 2004. The principal balance of the additional mortgage was \$900,000, with an annual interest rate of 11% over a 10 year term. In June and July 2005, we obtained additional funds in the amount of \$200,000, which we combined with the \$900,000 mortgage, and in August 2005 we restructured this additional mortgage. The monthly principal and interest payment is \$15,034. As of September 30, 2011, the balance of the additional mortgage was \$571,992. The last payments for both mortgages are due in 2015.
5. We own the property for our XTC Cabaret nightclub in San Antonio, which has 7,800 square feet of space. In November 2004, we obtained a mortgage using this property as collateral. The principal balance of the new mortgage was \$590,000, with an annual interest rate of 10% over a 10 year term. The money received from this new note was used to finance the acquisition and renovation of the New York club. As of September 30, 2011, the balance of this mortgage was \$499,402. The monthly principal and interest payment is \$5,694. The last mortgage payment is due in 2014.
6. We own an 8,000 square foot Houston property which is being prepared to open as a non sexually-oriented nightclub. In November 2004, this property, together with property in Austin, was used as additional collateral to secure the \$900,000 mortgage referenced in paragraph 4 above.
7. On April 5, 2006, our wholly owned subsidiary, RCI Holdings, Inc. completed the acquisition of real property located at 9009 Airport Blvd., Houston, Texas where we previously operated Club Onyx South and Divas Latinas. Pursuant to the terms of the agreement, we paid a total sales price of \$1,300,000, which consisted of \$500,000 in cash and 160,000 shares of our restricted common stock. This property is currently leased by a tenant for \$9,000 per month through November 2012.
8. On August 24, 2006, our subsidiary, RCI Holdings, Inc. acquired 100% of the interest in the improved real property upon which our Rick's-San Antonio is located. The total purchase price for the business and real property was \$2.9

million. Under terms of the agreement, the Company paid the owners of the club and property \$600,000 in cash at the time of closing and signed promissory notes for the remaining balance. This note was paid off in 2011.

9. On April 23, 2007, RCI Holdings, Inc., our wholly owned subsidiary, acquired the real property located at 7101 Calmont, Fort Worth, Texas for a total purchase price of \$2.5 million which consisted of \$100,000 in cash and \$2.4 million payable in a six year promissory note to the sellers which will accrue interest at the rate of 7.25% for the first two years, 8.25% for years three and four and 9.25% thereafter. The promissory note is secured by a Deed of Trust and Security Agreement. Further, RCI Holdings, Inc. entered into an Assignment and Assumption of Lease Agreement with the sellers to assume the lease agreement for the real property. We currently operate this property as Rick's Cabaret. As of September 30, 2011, the balance of the promissory note was \$1.4 million.

10. As part of the acquisition of The End Zone in Philadelphia, Pennsylvania, we acquired 51% of the issued and outstanding partnership interest of the partnership that owns the real property at 2908 S. Columbus Blvd., Philadelphia, Pennsylvania. At closing, we paid a purchase price of \$3.5 million in cash for the partnership interests. This property is currently operated as Club Onyx.

11. As part of the transaction to acquire Hotel Development, Ltd. which operated the Executive Club in Dallas, RCI Holdings, Inc. acquired the related real property located at 8550 N. Stemmons Freeway, Dallas, Texas from DPC Holdings, LLC, a Texas limited liability company. As consideration for the purchase of the real property, RCI Holdings, Inc. paid total consideration of \$5.6 million, which was paid (i) \$4.3 million, payable \$610,000 in cash and \$3.6 million through the issuance of a five year promissory note and (ii) the issuance of 57,918 shares of our restricted common stock to be valued at \$23.30 per share (\$1.4 million). The promissory note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), and is guaranteed by us and Eric Langan, our Chief Executive Officer, individually. As of September 30, 2011, the balance of the promissory note was \$3.3 million. This property is currently operated as XTC Cabaret.
12. As part of the acquisition of the Platinum Club II in Dallas, we acquired the real property located at 10557 Wire Way Place (at Northwest Highway), Dallas, Texas from Wire Way, LLC, a Texas limited liability company. Pursuant to a Real Estate Purchase and Sale Agreement dated May 10, 2008, we paid total consideration of \$6 million, which was paid \$1.6 million in cash and \$4.4 million through the issuance of a five (5) year promissory note. The promissory note bears interest at a varying rate at the greater of (i) two percent (2%) above the Prime Rate or (ii) seven and one-half percent (7.5%), which is guaranteed by us and by Eric Langan, our Chief Executive Officer, individually. As of September 30, 2011, the balance of the promissory note was \$4.0 million. This property is currently operated as Club Onyx.
13. As part of the acquisition of Joy Club of Austin on December 18, 2009, we acquired the real property located on IH 35 in Austin, Texas from North IH-35 Investments, Inc. ("NIIF"). In connection with the purchase we issued two promissory notes to the sellers and assumed another bank note. The notes aggregated \$2.5 million at the date of purchase. The notes bear interest at rates ranging from 4.75% to 7.25% and are payable at an aggregate of \$42,461, including interest, per month. As of September 30, 2011, the balance of the promissory notes was an aggregate of \$1.8 million. This property is currently operated as Rick's Cabaret.
14. In April 2010, we purchased the land and building which is occupied by one of our clubs in Austin, Texas (formerly Rick's and Club Onyx, now a 40%-owned club investment). We paid \$2.5 million for the property, which was paid \$300,000 in cash and through the issuance of a \$2.2 million promissory note. The note bears interest at the prime rate plus two points and is payable over 36 monthly installments (currently \$19,774 per month). The balance of the note at September 30, 2011 was \$2.1 million. We lease this property to the 40%-owned entity for \$10,000 per month.
15. We purchased 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 in January 2011. The land, building and contents were assigned an aggregate value of \$3.1 million in the purchase. This property is currently operated as Rick's Cabaret.
16. As part of the acquisition of the Gold Club of Indy, LLC in April 2011, we acquired the real property in Indianapolis, Indiana. At closing, we paid a purchase price of \$850,000 in cash. This property is currently operated as Rick's Cabaret.
17. As part of the acquisition of the assets of Schiek's Palace Royale in Minneapolis, Minnesota in July 2011, we acquired the real property. At closing, we paid a purchase price of \$3.25 million in cash. This property is currently operated as Downtown Cabaret.

#### PROPERTIES WE LEASE:

1. We lease the property in Houston, Texas, where our XTC North is located. The lease term was for five years, beginning March 2004, and is currently on a month-to-month lease. The monthly rent is now \$9,500.

2. We lease the property in New York City, New York, where our Rick's Cabaret NYC is located. We assumed the existing lease, which will terminate in April 2023. The monthly rent is currently \$48,074. Under the term of the existing lease, the base rent will increase by approximately 3% each year.
3. We lease the property in Charlotte, North Carolina, where our Club Onyx Charlotte is located. We executed an amended lease in February 2007, which will terminate in February 2017. The monthly rent is \$18,500 until February 2013, at which time the rent will escalate to \$20,000 until February 2017.
4. We lease the property in South Houston, Texas, where our XTC South is located. The lease term is for 79 months, beginning May 1, 2006, and terminates in December 2022. The monthly rent is \$3,000 until December 2012, then \$3,500 until December 2014 then \$4,000 until December 2019 and \$4,500 for the remaining three years of the lease.
5. We lease the property in Miami Gardens, Florida, where Tootsie's Cabaret is located with monthly rent of \$76,000. Under the Assignment of Lease, the original lease term continues through June 30, 2014, with two option periods which give us the right to lease the property through June 30, 2034.

6. We acquired a club in Fort Worth, Texas on September 30, 2009. The property is leased from a third party for \$30,000 per month until 2018. We also received an option to purchase the five-acre property on which the club sits within 19 months for approximately \$2.4 million. This property is currently operated as Cabaret North.
7. We acquired another club in Fort Worth, Texas on June 1, 2010. The property is leased from a third party for \$22,000 per month until 2015. We also received an option to purchase the property on which the club sits within 120 months for approximately \$4.5 million, escalating to \$5.2 million by the end of the term. This property is currently operated as XTC Cabaret.
8. We acquired another club in Fort Worth, Texas on July 16, 2010. We acquired the building in the purchase. The land is leased from a third party for \$20,000 per month until 2015 with four five-year options thereafter. We also received an option to purchase the land at any time after the twelfth anniversary of the lease for fair market value, but in no event less than \$3 million. This property is currently operated as Cabaret East.
9. We acquired another club in Fort Worth, Texas on October 5, 2011. The property is leased from a third party for \$10,000 per month until 2016.

### Item 3. Legal Proceedings.

Beginning January 1, 2008, our 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 we are 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 but taken no affirmative action to enforce that decision. 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 but on August 26, 2011, the Texas Supreme Court reversed the judgment of the Court of Appeals, ruling that the SOB Fee does not violate the First Amendment to the U.S. Constitution, and remanded the case to the District Court to determine whether the fee violates the Texas Constitution.

The TEA has appealed the Texas Supreme Court's decision to the U.S. Supreme Court (regarding the constitutionality of the fee under the First Amendment of the U.S. Constitution). Additionally, our claims regarding the Texas Constitution have not yet been addressed by the courts. We do not plan to make any payments of these taxes while the case is pending in the courts. However, we will continue to accrue and expense the potential tax liability on our financial statements, so any ultimate negative ruling will not have any effect on our income statement and will only affect our balance sheet. If the decision is ultimately found in our favor, as we believe it will be, then we will have a one-time gain of the entire amount previously expensed.

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 September 30, 2011, the Company has approximately \$6.8 million in accrued liabilities for this tax. The Company has paid more than \$2 million to the State of Texas since the inception of the tax. Our Texas clubs have filed a separate lawsuit against the State in which we raise additional challenges to the statute imposing the fee or tax and demand repayment of the taxes. The courts have not yet addressed these additional claims. If the State’s appeal ultimately fails or we are successful in the remaining litigation, the Company’s current amount paid under protest would be repaid or applied to future admission tax and

other Texas state tax liabilities.

In September 2011, the Company's subsidiary, RCI Entertainment Las Vegas, Inc. ("RCI Las Vegas") and Rick's Cabaret International were sued by the lessor of its club in Las Vegas for breach of contract and other issues relating to RCI Las Vegas' lease. RCI Las Vegas has no assets and, therefore, is not able to pay the "deficiency", if any is ultimately found in a court of law. If the plaintiff should attempt to claim that the "deficiency" is a liability of the parent company, the Company believes it has the legal basis upon which to refute this claim as the parent company is not liable for the debts of its subsidiaries. Therefore, the Company does not believe that this contingency will ultimately result in a liability and, therefore, no accrual has been made in the accompanying consolidated financial statements.

The Company's club in Las Vegas has recently been audited by the Department of Taxation of the State of Nevada for sales and other taxes. The audit period was from the date of opening in September 2008 through July 31, 2010. As a result of the audit, the Department of Taxation contends that the Company's Las Vegas subsidiary owes approximately \$2.1 million, including penalties and interest, for Las Vegas Live Entertainment Taxes. The Company does not believe it is subject to the Live Entertainment Tax and is protesting the audit results. Accordingly, the Company has not accrued the contingent liability in the accompanying consolidated financial statements. It is unknown at this time whether the resolution of this uncertainty will have a material effect on the Company's operations.

In September 2011, we and our CEO were sued in District Court in Travis County, Texas by a shareholder for damages as a result of the plaintiff's alleged inability to sell shares on the open market due to restrictive legends which the plaintiff alleges that the defendants failed to remove in a timely manner. No specific damages have been alleged. We deny any liability in this matter and, with our insurance company, are vigorously defending the allegations.

Item 4. Removed and Reserved

## PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is quoted on the NASDAQ Global Market under the symbol "RICK". The following table sets forth the quarterly high and low of sales prices per share for the common stock for the last two fiscal years.

### COMMON STOCK PRICE RANGE

	HIGH	LOW
Fiscal Year Ended September 30, 2011		
First Quarter	\$8.71	\$6.83
Second Quarter	\$11.45	\$7.83
Third Quarter	\$11.28	\$7.61
Fourth Quarter	\$9.25	\$6.20
Fiscal Year Ended September 30, 2010		
First Quarter	\$9.04	\$6.75
Second Quarter	\$16.05	\$8.60
Third Quarter	\$13.04	\$7.61
Fourth Quarter	\$8.84	\$5.96

On December 1, 2011, the last sales price for the common stock as reported on the NASDAQ Global Market was \$7.79. On December 1, 2011, there were approximately 194 stockholders of record of our common stock (excluding shares held by shareholders in street name).

### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, NY 11219.

## DIVIDEND POLICY

We have not paid, and do not currently intend to pay cash dividends on our common stock in the foreseeable future. Our current policy is to retain all earnings, if any, to provide funds for operation and expansion of our business. The declaration of dividends, if any, will be subject to the discretion of the Board of Directors, which may consider such factors as our results of operation, financial condition, capital needs and acquisition strategy, among others.

## PURCHASES OF EQUITY SECURITIES BY THE ISSUER

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5 million worth of our common stock. During the fiscal year ended September 30, 2011, we purchased 283,384 shares of common stock in the open market at prices ranging from \$6.45 to \$8.96. During the fiscal year ended September 30, 2010, we purchased 57,450 shares of common stock in the open market at prices ranging from \$5.98 to \$6.41.

During the three months ended September 30, 2011, we also purchased 33,000 shares of common stock from put option holders at prices ranging from \$7.04 to \$8.53 per share.

Following is a summary of our purchases by month:

(in thousands, except per share data)

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
Jul-11	23	\$ 8.38	12	\$ 2,912
Aug-11	91	\$ 7.52	80	\$ 2,320
Sept-11	38	\$ 6.78	27	\$ 2,142
Total for the three months ended Sept 30, 2011	152	\$ 7.46	119	\$

Included in the shares purchased were 33,000 shares at a cost of \$262,680 purchased in connection with our obligations under the exercise of put options during the quarter.

#### EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth all equity compensation plans as of September 30, 2011:

(in thousands, except per share data)

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-a verage exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	520	\$ 10.01	0

Equity compensation plans not approved by security holders - \$ - -

EMPLOYEE STOCK OPTION PLANS

While we have been successful in attracting and retaining qualified personnel, we believe that our future success will depend in part on our continued ability to attract and retain highly qualified personnel. We pay wages and salaries that we believe are competitive. We also believe that equity ownership is an important factor in our ability to attract and retain skilled personnel. We have adopted stock option plans (the “Plans”) for employees and directors. The purpose of the Plans is to further our interests, our subsidiaries and our stockholders by providing incentives in the form of stock options to key employees and directors who contribute materially to our success and profitability. The grants recognize and reward outstanding individual performances and contributions and will give such persons a proprietary interest in us, thus enhancing their personal interest in our continued success and progress. The Plans also assist us and our subsidiaries in attracting and retaining key employees and directors. The Plans are administered by the Board of Directors. The Board of Directors has the exclusive power to select the participants in the Plans, 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.

In August 1999, we adopted the 1999 Stock Option Plan (the “1999 Plan”) with 500,000 shares authorized to be granted and sold under the 1999 Plan. In August 2004, shareholders approved an Amendment to the 1999 Plan (the “Amendment”) which increased the total number of shares authorized to 1 million. In July 2007, shareholders approved an Amendment to the 1999 Plan (the “Amendment”), which increased the total number of shares authorized to 1.5 million. The 1999 Plan was terminated by law in July 2009. Our Board of Directors approved the 2010 Stock Option Plan (“the 2010 Plan”) on September 30, 2010. The 2010 Plan was approved by the shareholders of the Company for adoption at the 2011 Annual Meeting of Shareholders. As of September 30, 2011, there are 520,000 stock options outstanding.

#### RECENT SALES OF UNREGISTERED SECURITIES

During the quarter ended September 30, 2011, we completed no transactions in reliance upon exemptions from registration under the Securities Act of 1933, as amended (the "Act").

#### STOCK PERFORMANCE GRAPH

The following chart compares the 5-year cumulative total stock performance of our common stock, the NASDAQ Composite Index and a peer group consisting of: BJ’s Restaurant Group, New Frontier Media, Ark Restaurants and Buffalo Wild Wings. The graph assumes that \$100 was invested at inception in our common stock and in each of the indices and that all dividends were reinvested. The measurement points utilized in the graph consist of the last trading day as of September 30 each year, representing the last day of our fiscal year. The historical stock performance presented below is not intended to and may not be indicative of future stock performance.

#### Item 6. Selected Financial Data.

The following table sets forth certain of the Company’s historical financial data. The selected historical consolidated financial data as of September 30, 2011 and 2010 and for the years ended September 30, 2011, 2010 and 2009 have been derived from the Company’s audited consolidated financial statements and the related notes included elsewhere herein. The selected historical consolidated financial data as of September 30, 2009, 2008 and 2007 and for the years ended September 30, 2008 and 2007 have been derived from the Company’s audited financial statements for such years, which are not included in this Annual Report on Form 10-K. The selected historical consolidated financial data set forth are not necessarily indicative of the results of future operations and should be read in conjunction with the discussion under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the historical consolidated financial statements and accompanying notes included herein. The historical results are not necessarily indicative of the results to be expected in any future period.

(in thousands, except per share data)

Year Ended September 30,	2011	2010	2009	2008	2007
Revenue	\$ 83,491	\$ 74,063	\$ 65,415	\$ 57,390	30,087
Income from continuing operations	\$ 10,252	\$ 3,905	\$ 7,948	\$ 8,474	\$ 2,957
Fully diluted income from continuing operations per common share	\$ 1.01	\$ 0.38	\$ 0.81	\$ 0.90	\$ 0.35
Total assets	\$ 153,377	\$ 148,371	\$ 145,077	\$ 137,069	\$ 42,588
Total Rick's stockholders' equity	\$ 76,913	\$ 69,939	\$ 70,092	\$ 63,003	\$ 24,043
Long-term debt	\$ 35,554	\$ 42,686	\$ 37,812	\$ 33,557	\$ 14,387



Please read the following selected consolidated financial data in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing elsewhere in this Annual Report on Form 10-K for a discussion of information that will enhance understanding of this data.

Item 7. 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 the related notes to the financial statements included in this Form 10-K.

FORWARD LOOKING STATEMENT AND INFORMATION

We are including the following cautionary statement in this Form 10-K 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 us or on behalf of us. 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-K 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. Our expectations, beliefs and projections are expressed in good faith and we believe that they have a reasonable basis, including without limitation, our examination of historical operating trends, data contained in our records and other data available from third parties. There can be no assurance that our expectations, beliefs or projections will result, be achieved, or be accomplished. In addition to other factors and matters discussed elsewhere in this Form 10-K, the following are important factors that in our view could cause material adverse affects on our financial condition and results of operations: the risks and uncertainties related to our future operational and financial results, the risks and uncertainties relating to our Internet operations, competitive factors, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, our dependence on key personnel, the ability to manage operations and the future operational strength of management, and the laws governing the operation of adult entertainment businesses. We have no obligation to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

GENERAL INFORMATION

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, restaurant and bar operations. Through our subsidiaries, we currently own and/or operate a total of twenty-three adult nightclubs that offer live adult entertainment, restaurant and bar operations. Eight 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 operate under the name "XTC Cabaret"; one club operates as “Tootsie’s Cabaret”, one operates as “Cabaret North” and one operates as “Downtown Cabaret”, one operates as “Cabaret East”, and one operates as “Temptations”. Additionally, we own a 40% interest in “The Mansion” nightclub in Austin, Texas. 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 and Indianapolis, Indiana. No sexual contact is permitted at any of our locations.
2. We have extensive Internet activities.

- a) We currently own two adult Internet membership Web sites at [www.CoupleTouch.com](http://www.CoupleTouch.com) and [www.xxxpassword.com](http://www.xxxpassword.com). We acquire xxxpassword.com site content from wholesalers.
  - b) We operate an online auction site [www.NaughtyBids.com](http://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. In April 2008, we acquired a media division, including the leading trade magazine serving the multi-billion dollar adult nightclubs industry. As part of the transaction we also acquired 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 FASB recognized the complexity of its standard-setting process and embarked on a revised process in 2004 that culminated in the release on July 1, 2009 of the Accounting Standards Codification ("ASC"). The ASC does not change how Company accounts for its transactions or the nature of related disclosures made. Rather, the ASC results in changes to how the Company references accounting standards within its reports. This change was made effective by the FASB for periods ending on or after September 15, 2009. The Company has updated references to GAAP in this Annual Report on Form 10-K 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.

### 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, Intangibles - Goodwill and Other 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, 2011, 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 recent acquisitions, specifically Las Vegas, Philadelphia and the original Rick's Cabaret in Austin (now a 40%-owned investment), 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 have determined that there is a net asset impairment at September 30, 2010, relating to these three nightclub operations. The Las Vegas club was closed during the year ended September 30, 2011. See Notes to Consolidated Financial Statements.

None of our other reporting units were at risk of failing step one of the impairment test (i.e. that fair value was not substantially in excess of carrying value) in either year.

### 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. 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 815-40, Derivatives and Hedging – Contracts in Entity's Own Equity. Under certain circumstances that would require the Company to settle these equity items in cash, and without regard to probability, FASB ASC 815-40 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 815-40 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 605-45, Revenue Recognition – Principal Agent Considerations. Total sales and liquor taxes aggregated \$6.0 million, \$5.6 million and 4.5 million for the years ended September 30, 2011, 2010 and 2009, 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, 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, Distinguishing Liabilities From Equity, 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 (Loss) Per Common Share

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

## Stock Options

The Company has adopted the fair value recognition provisions of FASB ASC 718, Compensation—Stock Compensation.

The compensation cost recognized for the years ended September 30, 2011, 2010 and 2009 was \$8,254, \$405,229 and \$96,171, respectively. There were 25,000, 20,000 and 300,000 stock options exercises for the years ended September 30, 2011, 2010 and 2009, respectively.

**RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011 AS COMPARED TO THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

For the fiscal year ended September 30, 2011, we had consolidated total revenues of \$83.5 million, compared to consolidated total revenues of \$74.1 million for the year ended September 30, 2010. This was an increase of \$9.4 million or 12.7%. The increase in total revenues was primarily due to revenues generated in our new clubs acquired in 2011 (\$1.6 million in 2011), a full year of revenues from clubs purchased in 2010 (increase of \$4.5 million) and increases in revenues from certain of our existing clubs, especially from our New York location. Revenues from nightclub operations for same-location same-period increased by 4.9%.

Our operating margin (income (loss) from operations plus impairment of assets, divided by total revenues) was 22.5% for the year ended September 30, 2011 compared to 20.2% for the prior year.

Our income (loss) from operations for our Internet businesses (excluding corporate overhead) was \$(85,857) for the year ended September 30, 2011 compared with \$76,067 for the year ended September 30, 2010. Our income from operations for our nightclub operations for the same-location-same-period increased by 18.3%.

Our net income (loss) was \$7.8 million for the fiscal year ended September 30, 2011 compared to \$(8.0 million) for the previous year. The increase in our net income was primarily a result of the impairment of nightclub assets in 2010, along with a growth in the operations.

Following is a comparison of the Company's income statement for the years ended September 30, 2011 and 2010 with percentages compared to total revenue:

	2011	%		2010	%	
Sales of alcoholic beverages	\$ 32,575	39.0	%	\$ 28,532	38.5	%
Sales of food and merchandise	7,402	8.9	%	6,327	8.5	%
Service Revenues	38,178	45.7	%	34,179	46.1	%
Internet Revenues	470	0.6	%	562	0.8	%
Media	1,248	1.5	%	1,440	1.9	%
Other	3,618	4.3	%	3,023	4.1	%
Total Revenues	83,491	100.0	%	74,063	100.0	%
Cost of Goods Sold	10,427	12.5	%	9,136	12.3	%
Salaries & Wages	18,321	21.9	%	16,305	22.0	%
Stock-based Compensation	8	0.0	%	405	0.5	%
Taxes and permits	12,542	15.0	%	11,452	15.5	%
Charge card fees	1,361	1.6	%	1,229	1.7	%
Rent	2,988	3.6	%	2,737	3.7	%
Legal & professional	2,289	2.7	%	3,002	4.1	%
Advertising and marketing	3,471	4.2	%	3,167	4.3	%
Depreciation and amortization	3,904	4.7	%	3,225	4.4	%
Insurance	1,157	1.4	%	985	1.3	%
Utilities	1,605	1.9	%	1,507	2.0	%
Impairment of assets	-	0.0	%	3,574	4.8	%
Other	6,624	7.9	%	5,948	8.0	%
Total operating expenses	64,697	77.5	%	62,672	84.6	%
Income from operations	18,794	22.5	%	11,391	15.4	%
Interest income	118	0.1	%	19	0.0	%
Interest expense	(3,930 )	-4.7	%	(4,023 )	-5.4	%
Interest expense - loan origination costs	(359 )	-0.4	%	(450 )	-0.6	%
Gain (loss) on change in fair value of derivative instruments	129	0.2	%	(31 )	0.0	%
Gain on settlement of debt	903	1.1	%	-	0.0	%
Gain (loss) on sale of assets and other	-	0.0	%	(3 )	0.0	%
Income from continuing operations before income taxes	\$ 15,655	18.8	%	\$ 6,903	9.3	%

Following is an explanation of significant variances in the above amounts.

Other revenues include ATM commissions earned, video games and other vending and certain promotion fees charged to our entertainers. The Company recognizes 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. Our cost of goods sold for the nightclub operations for the year ended September 30, 2011 was 12.4% of our total revenues from club operations compared to 12.3% for the year ended September 30, 2010. Cost of goods sold for same-location-same-period decreased to 12.1% for the year ended September 30, 2011 compared to 12.2% for the year ended September 30, 2010. We continued our efforts to achieve reductions in cost of goods sold of the club operations through improved inventory management. We are continuing a program to improve margins from liquor and food sales and food service efficiency. Our cost of sales from our Internet operations for the year ended September 30, 2011 was 2.0% compared to 2.3% of related revenues for the year ended September 30, 2010.

The increase in payroll and related costs, stated as “Salaries & Wages” above, was primarily due to the addition of the new clubs in 2010 and 2011. Payroll for same-location-same-period of club continuing operations increased to \$13.0 million for the year ended September 30, 2011 from \$12.6 million for the previous year. Management currently believes that its labor and management staff levels are appropriate.

The decrease in stock-based compensation in 2011 results from the issuance of 465,000 options at September 30, 2010 to employees and Board of Directors. These options were exercisable immediately, resulting in the related cost being recognized entirely during the 2010 fiscal year.

Taxes and permits consists principally of payroll taxes, property taxes, sales and alcohol taxes, licenses and permits and the patron tax in our nightclubs in Texas. The increase in 2011 results principally from the new clubs acquired. Patron taxes amounted to \$2.9 million and \$2.8 million for the years ended September 30, 2011 and 2010, respectively.

Rent expense increased principally due to new leases in two new clubs in Fort Worth.

Legal and professional expenses decreased principally due to a decrease in the costs related to litigation involving claims under the Fair Labor Standards Act. We incurred approximately \$100,000 and \$88,000 in legal fees related to new acquisitions in 2011 and 2010, respectively.

Depreciation and amortization increased approximately \$679,000 from the year ended September 30, 2010, due to the new clubs purchased.

Utilities increased due to new clubs and the heat and drought in Texas in 2011.

The decrease in interest expense was attributable to the continued decrease in debt as we amortize the loans. Also included in interest expense in 2010 is the write off of the unamortized portion of certain loan origination costs relating to our redeemed convertible debt, amounting to \$274,425. As of September 30, 2011, the balance of long-term debt was \$35.6 million compared to \$42.7 million a year earlier.

Gain on settlement of debt in 2011 represents the gain from settlement of certain cross-litigation with the former sellers of the Las Vegas club.

See “Derivative Financial Instrument” above for information on the Company’s derivative financial instrument at September 30, 2011.

Following is our adjusted EBITDA for the years ended September 30:

	(in thousands, except per share data)		
	2011	2010	2009
Adjusted EBITDA	\$ 23,637	\$ 17,915	\$ 17,890

In the table above, we have included 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

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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 earnings from continuing operations to adjusted EDITDA are provided below for the years ended September 30:

	2011	2010	2009
Income from continuing operations	\$ 10,252	\$ 3,905	\$ 7,948
Net income from noncontrolling interests	(211 )	(260 )	(294 )
Income taxes	5,403	2,998	4,013
Interest expense	4,289	4,473	3,417
Depreciation and amortization	3,904	3,225	2,806
Impairment of assets	-	3,574	-
Adjusted EBITDA	\$ 23,637	\$ 17,915	\$ 17,890

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 (loss) 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.

#### Discontinued Operations

In March 2011, we made the decision to sell our Las Vegas location and, in April 2011, sharply reduced its operations in order to eliminate losses as we sought a buyer for the property. We believe that we have done everything possible to make this location viable since its acquisition in 2008 and now believed it was in our shareholders' best interests not to continue these efforts. The club was shuttered and the landlord took over the property in June 2011. Therefore, this club is recognized as a discontinued operation in the accompanying financial statements and has recognized a loss on the closure of \$2.0 million in discontinued operations.

In August 2011, we sold 60% of the membership interest in the entity that previously operated our Rick's Cabaret in Austin, Texas. Accordingly, we have deconsolidated the subsidiary as of August 31, 2011 and have carried it as an equity-method investment. Accordingly, the club is recognized as a discontinued operation in the accompanying financial statements for periods prior to August 31, 2011.

The Company sold one of its nightclubs, Encounters in San Antonio, on March 1, 2009 for \$40,000, including \$5,000 in cash and a \$35,000 note payable monthly for one year. The Company recognized an impairment of \$221,563 for this club during the quarter ended December 31, 2008. The actual loss at date of sale was \$226,175.

We closed our Divas Latinas club in Houston during September 2009. This club is also recognized in discontinued operations.

Following is summarized information regarding these discontinued operations:

Revenues of discontinued operations amounted to \$2.6 million and \$8.9 for the years ended September 30, 2011 and 2010, respectively.

The accompanying consolidated financial statements reflect the following as discontinued operations as of and for the period ended September 30, 2011 and 2010:

(in thousands)	Year Ended September 30,		
	2011	2010	2009
Loss from discontinued operations	\$ (1,107)	\$ (914)	\$ (2,714)
Loss on sale of discontinued operations	(2,270)	(16,937)	(1,049)
Income tax - discontinued operations	1,182	6,248	1,317
Total loss from discontinued operations, net of tax	\$ (2,195)	\$ (11,603)	\$ (2,446)

Major classes of assets and liabilities included as assets and liabilities of discontinued operations as of:

September 30,

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	2011	2010
Current assets, including deferred tax assets	\$ 33	\$ 1,095
Property and equipment	76	2,889
Other assets	3	867
Current liabilities	(144)	(278)
Long-term liabilities	(33)	(310)
Net assets (liabilities)	\$ (65)	\$ 4,263

## RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010 AS COMPARED TO THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

For the fiscal year ended September 30, 2010, we had consolidated total revenues of \$74.1 million, compared to consolidated total revenues of \$65.4 million for the year ended September 30, 2009. This was an increase of \$8.6 million or 13.2%. The increase in total revenues was primarily due to revenues generated in our new clubs and increases in revenues from certain of our existing clubs, especially from our New York location. Revenues from nightclub operations for same-location same-period increased by 10.2% and for Internet businesses decreased by 12.3%.

Our operating margin (income from operations plus impairment divided by total revenues) was 20.2% for the year ended September 30, 2010 compared to 23.0% for the prior year.

Our income from continuing operations before income taxes for the year ended September 30, 2010 was \$6.9 million compared to \$12.0 million for the year ended September 30, 2009. The decrease was primarily due to the same factors discussed in the previous paragraph and an impairment of our Philadelphia club in the amount of \$3.6 million. Our income from operations for our Internet businesses (excluding corporate overhead) was \$76,067 for the year ended September 30, 2010 compared with \$162,071 for the year ended September 30, 2009. Our income from operations for our nightclub operations for the same-location-same-period increased by 4.5%.

Our net loss was (\$8.0) million for the fiscal year ended September 30, 2010 compared to \$5.2 million for the previous year. The decrease in our net income was primarily a result of the impairment of three clubs in 2010.

Following is a comparison of the Company's income statement for the years ended September 30, 2010 and 2009 with percentages compared to total revenue:

(in thousands)	2010	%	2009	%
Sales of alcoholic beverages	\$ 28,532	38.5 %	\$ 23,641	36.1 %
Sales of food and merchandise	6,327	8.5 %	5,615	8.6 %
Service Revenues	34,179	46.1 %	31,786	48.6 %
Internet Revenues	562	0.8 %	641	1.0 %
Media	1,440	1.9 %	1,404	2.1 %
Other	3,023	4.1 %	2,328	3.6 %
<b>Total Revenues</b>	<b>74,063</b>	<b>100.0 %</b>	<b>65,415</b>	<b>100.0 %</b>
Cost of Goods Sold	9,136	12.3 %	7,884	12.1 %
Salaries & Wages	16,305	22.0 %	14,799	22.6 %
Stock-based Compensation	405	0.5 %	96	0.1 %
Taxes and permits	11,452	15.5 %	8,351	12.8 %
Charge card fees	1,229	1.7 %	1,300	2.0 %
Rent	2,737	3.7 %	2,166	3.3 %
Legal & professional	3,002	4.1 %	2,848	4.4 %
Advertising and marketing	3,167	4.3 %	2,588	4.0 %
Depreciation and amortization	3,225	4.4 %	2,806	4.3 %
Insurance	985	1.3 %	894	1.4 %
Utilities	1,507	2.0 %	1,390	2.1 %
Impairment of assets	3,574	4.8 %	-	0.0 %
Other	5,948	8.0 %	5,258	8.0 %

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Total operating expenses	62,672	84.6	%	50,380	77.0	%
Income from operations	11,391	15.4	%	15,035	23.0	%
Interest income	19	0.0	%	16	0.0	%
Interest expense	(4,023 )	-5.4	%	(3,352 )	-5.1	%
Interest expense - loan origination costs	(450 )	-0.6	%	(65 )	-0.1	%
Gain (loss) on change in fair value of derivative instruments	(31 )	0.0	%	145	0.2	%
	-			-	0.0	%
Gain (loss) on sale of assets and other	(3 )	0.0	%	182	0.3	%
Income from continuing operations before income taxes	\$ 6,903	9.3	%	\$ 11,961	18.3	%

Taxes and permits consists principally of payroll taxes, property taxes, sales and alcohol taxes, licenses and permits and the patron tax in our nightclubs in Texas. Patron taxes amounted to \$2.8 million and \$1.8 million for the years ended September 30, 2010 and 2009, respectively. The percentage of taxes to revenues has increased due to the new clubs we have added in the Dallas-Fort Worth area in 2010 and 2011.

Rent expense increased principally due to significant new leases in new clubs acquired in 2010.

Legal and professional expenses increased principally due to the addition of new clubs and costs related to litigation involving claims under the Fair Labor Standards Act.

The increase in the percentage of advertising and marketing to total revenue is principally due to increases in our overall marketing campaign to attempt to increase volume of customer traffic to all locations.

Depreciation and amortization increased due to the new clubs purchased during the two fiscal years.

Impairment expense represents the 2010 impairment of our club in Philadelphia.

The increase in interest expense was attributable to our obtaining new debt during the year ended September 30, 2010 and 2009 to finance the purchase of the new clubs and related real estate. As of September 30, 2010, the balance of long-term debt was \$42.7 million compared to \$37.8 million a year earlier, but a substantial portion of the new debt was entered into during the quarter ended September 30, 2010.

See “Derivative Financial Instrument” above for information on the Company’s derivative financial instrument at September 30, 2010.

#### LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2011, we had working capital of \$2.0 million compared to working capital of \$9.1 million as of September 30, 2010. The decrease is principally due to the acquisitions we made during 2011, all with cash. Because of the large volume of cash we handle, stringent cash controls have been implemented. At September 30, 2011, our cash and cash equivalents were \$9.7 million compared to \$18.6 million at September 30, 2010.

Our depreciation for the year ended September 30, 2011 was \$3.5 million compared to \$2.9 million for the year ended September 30, 2010. Our amortization for the year ended September 30, 2011 was \$419,000 compared to \$367,000 for the year ended September 30, 2010.

The following table presents a summary of our cash flows from operating, investing, and financing activities:

	Years ended September 30,		
	2011	2010	2009
Net cash provided by operating activities	\$ 18,881	\$ 17,340	\$ 8,967
Net cash used in investing activities	(16,340)	(12,897)	(3,790)
Net cash provided by (used in) financing activities	(11,442)	1,757	2,202
Net increase (decrease) in cash and cash equivalents	\$ (8,901)	\$ 6,200	\$ 7,379

The increase in cash provided by operating activities was primarily due to the increase in cash flows from the operations in 2011 (net loss plus noncash impairment and depreciation) and from the nonpayment of Texas Patron Taxes. The increase in cash used in investing activities relates primarily to acquisitions of businesses. The cash used in financing activities in 2011 relates to purchase of treasury stock and put options without any proceeds of long-term debt.

We require capital principally for the 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.

Debt Financing:

On August 6, 2009, we completed the sale of an aggregate of \$7.2 million in 10% Convertible Debentures (the "Debentures") to certain accredited investors (the "Holders"). The Debentures bear interest at the rate of 10% per annum and mature on August 4, 2012. The Debentures were payable with one initial payment of interest only due February 4, 2010, and, thereafter in ten equal quarterly principal payments, plus accrued interest thereon. At the option of the Holders, the Debentures could be converted into shares of the Company's common stock at \$8.75 per share. The Debentures were redeemable by us at any time if the closing price of its common stock for 20 consecutive trading days is at least \$11.50 per share. The Debentures provide that an event of default would occur if: we should fail to pay any principal or interest when due; we should fail to convert any Debenture when required; we should fail to observe or perform any covenant or agreement contained within the Debenture; there are cross defaults to other indebtedness in excess of \$1,000,000; there is a reorganization, liquidation, voluntary or involuntary bankruptcy or insolvency proceedings or other bankruptcy default; or a final unsatisfied judgment not covered by insurance aggregating an excess of \$1 million occurs against us and is not stayed, bonded or discharged within seventy-five days.

In connection with the sale of the Debentures, we also issued an aggregate of 164,569 warrants (the “Warrants”) to the Holders, on a pro-rata basis. We issued each Holder a number of Warrants equal to 20% of the number of shares of common stock into which each Holder’s Debenture is convertible. The Warrants have an exercise price of \$8.75 and expire on August 5, 2012. The Warrants provide that we had the right to require exercise of the Warrants if the closing price of our common stock for 20 consecutive trading days was at least \$12.25.

On April 16, 2010, the Company sent a Notice of Redemption to all of the Holders, thereby exercising its right to redeem all of the 2009 Debentures, including the entire outstanding principal amount of all the 2009 Debentures and any accrued but unpaid interest thereon. Upon receipt of such Notice of Redemption, all of the Holders exercised their right to convert the principal amount plus all accrued but unpaid interest thereon of the 2009 Debentures at the conversion price of \$8.75 per share in lieu of receiving a cash payment (pursuant to the terms of the 2009 Debentures), effective as of May 3, 2010. Accordingly, on May 4, 2010, the Company issued an aggregate of 842,972 shares of its common stock to these Holders, in conversion of an aggregate of \$7.2 million of outstanding principal and an aggregate of \$176,000 of outstanding interest on such 2009 Debentures. As a result of this conversion, the Company made no cash payments to the Holders in connection with the Notice of Redemption. Concurrent with the retirement of the debt, the Company was required to write off, as interest expense, the unamortized portion of its related loan origination costs, amounting to \$274,425.

On June 25, 2010, the Company completed the sale of an aggregate of approximately \$9.2 million in 10% Convertible Debentures (the “2010 Debentures”) to certain accredited investors (the “ Holders”). The 2010 Debentures bear interest at the rate of 10% per annum and mature on June 25, 2013. The 2010 Debentures are payable with one initial payment of interest only due December 26, 2010, and, thereafter in ten equal quarterly principal payments, plus accrued interest thereon. At the option of the Holders, the principal amount of the 2010 Debentures and the accrued but unpaid interest thereon may be converted into shares of the Company’s common stock at \$10.25 per share. The 2010 Debentures are redeemable by the Company at any time if the closing price of its common stock for 20 consecutive trading days is at least \$13.47 per share.

In connection with the sale of the 2010 Debentures in June 2010, the Company also issued an aggregate of 179,513 warrants (the “Warrants”) to the Holders, on a pro-rata basis. The Company issued each Holder a number of Warrants equal to 20% of the number of shares of common stock into which each Holder’s 2010 Debenture is convertible. The Warrants have an exercise price of \$10.25 and expire on June 25, 2013. The Warrants provide that the Company has the right to require exercise of the Warrants if the closing price of the Company’s common stock for 20 consecutive trading days is at least \$14.35.

The fair value of the warrants were estimated to be \$434,571 in accordance with FASB ASC 820, Fair Value Measurements and Disclosures, using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	68	%
Expected life	1.5	years
Expected dividend yield	-	
Risk free rate	1.18	%

The cost of the warrants has been recognized as a discount on the related debt and will be amortized over the life of the debt.

The proceeds from the sale of the 2010 Debentures and Warrants in June 2010 are intended to be utilized to make future acquisitions, and may be utilized for working capital and general corporate purposes.

An adviser to the Company received compensation in the amount of \$460,000, which was capitalized as loan origination cost and will be amortized over the life of the debt, in connection with advising the Company regarding the June 2010 sale of the 2010 Debentures and Warrants. The 2010 Debentures and Warrants were sold under the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and the rules and regulations promulgated thereunder, including Regulation D. All of the offers and sales of the 2010 Debentures and Warrants were made exclusively to "accredited investors" (as such term is defined in Rule 501(a) of Regulation D) in offers and sales not involving a public offering. The Holders purchased the securities for their own account and not with a view towards or for resale. There was no general solicitation or advertising conducted in connection with the sales of the securities.

The proceeds from the sale of the Debentures and Warrants are intended to be utilized to make future acquisitions, and may be utilized for working capital and general corporate purposes.

Contractual obligations and commitments:

We have long term contractual obligations primarily in the form of operating leases and debt obligations. The following table summarizes our contractual obligations and their aggregate maturities as well as future minimum rent payments. Future interest payments related to variable interest rate debt were estimated using the interest rate in effect at September 30, 2011.

## Payments Due by Period

(in thousands)	Total	2012	2013	2014	2015	2016	Thereafter
Long-term debt	\$ 35,554	\$ 5,494	\$ 13,541	\$ 2,416	\$ 3,658	\$ 1,306	\$ 9,139
Interest payments	10,605	3,172	2,320	1,659	1,381	1,106	967
Operating leases	14,227	2,344	2,296	2,088	1,291	1,056	5,152

## 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 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.

During April and May 2009, we completed renegotiation of terms of certain of our long term debt and a significant portion of outstanding put options. Before the renegotiation, the maximum obligation that could be owed if our stock were valued at zero was \$13.9 million and was recorded in our consolidated balance sheet as Temporary Equity. After the renegotiation, the maximum obligation that could be owed if our stock were valued at zero is \$3.2 million at September 30, 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 as explained in Note B of Notes to Consolidated Financial Statements. 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 September 30, 2011 of \$6.65 per share, of which there can be no assurance: (This includes the derivative financial instruments recognized in our consolidated balance sheet at September 30, 2011.)

For the Year Ended September 30:

	(in thousands)
2012	\$ 2,192
2013	148
Total	\$ 2,340

Each \$1.00 per share movement of our stock price has an aggregate effect of \$135,000 on the total obligation.

We are not aware of any other event or trend that would potentially affect liquidity. In the event such a trend develops, we believe our working capital and capital expenditure requirements will be adequately met by cash flows from operations. In our opinion, working capital is not a true indicator of our financial status. Typically, businesses in our industry carry current liabilities in excess of current assets because businesses in our industry receive substantially immediate payment for sales, with nominal receivables, while inventories and other current liabilities normally carry longer payment terms. Vendors and purveyors often remain flexible with payment terms, providing businesses in our industry with opportunities to adjust to short-term business down turns. We consider the primary indicators of financial status to be the long-term trend of revenue growth, the mix of sales revenues, overall cash flow, profitability from operations and the level of long-term debt.

The following table presents a summary of such indicators:

	2011	Increase (Decrease)		2010	Increase (Decrease)		2009
Sales of alcoholic beverages	\$ 32,575	14.2 %	\$	28,532	20.7 %	\$	23,641
Sales of food and merchandise	7,402	17.0 %		6,327	12.7 %		5,615
Service Revenues	38,178	11.7 %		34,179	7.5 %		31,786
Internet Revenues	470	-16.4 %		562	-12.3 %		641
Media	1,248	-13.3 %		1,440	2.6 %		1,404
Other	3,618	19.7 %		3,023	29.9 %		2,328
<b>Total Revenues</b>	<b>83,491</b>	<b>12.7 %</b>		<b>74,063</b>	<b>13.2 %</b>		<b>65,415</b>
Net cash provided by operating activities	\$ 18,881	8.7 %	\$	17,340	93.4 %	\$	8,967
<b>Adjusted EBITDA</b>	<b>\$ 23,637</b>	<b>31.9 %</b>	<b>\$</b>	<b>17,915</b>	<b>0.1 %</b>	<b>\$</b>	<b>17,890</b>
Long-term debt	\$ 35,554	-16.7 %	\$	42,686	12.9 %	\$	37,812

\* See definition of adjusted EBITDA above under Results of Operations.

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.

#### Share repurchase

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5 million worth of our common stock. During the fiscal year ended September 30, 2011, we purchased 283,384 shares of common stock in the open market at prices ranging from \$6.45 to \$8.96. During the fiscal year ending September 30, 2009, no shares were purchased under this program. During the fiscal year ended September 30, 2010, we purchased 57,450 shares of common stock in the open market at prices ranging from \$5.98 to \$6.41. Under the Board's authority, we have \$2.1 million remaining to purchase additional shares.

#### 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 indicates that there are no seasonal fluctuations 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 market analysis, (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, (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, and/or (e) to acquire real estate in connection with club operations, although some clubs may be in leased premises.

During fiscal 2008, we acquired a media division for a total cost of \$1.1 million. This acquisition was funded primarily through issuance of our restricted common stock valued at \$369,754, and \$700,000 in cash. This media operation had total revenues of approximately \$1.2 million, \$1.4 million and \$1.4 million for fiscal years 2011, 2010 and 2009, respectively and net losses of approximately \$67,000, \$156,000 and \$242,000.

During fiscal 2008, we acquired five existing nightclub operations and 49% of an existing nightclub operation for a total cost of \$69.8 million, including real property of \$14.8 million. These acquisitions were funded primarily through indebtedness of \$21 million, including real property debt of \$8 million, issuance of our restricted common stock valued at \$13 million, \$701,711 in debt forgiveness, and \$35.4 million in cash. These nightclub operations (exclusive of the Las Vegas club closed in 2011 and the Austin club in which we sold 60% in 2011) had total revenues of approximately \$34.9 million, \$41.6 million and \$40.7 million for fiscal years 2011, 2010 and 2009, respectively, and pretax income of approximately \$11.0 million, \$9.4 million and \$9.2 million.

During fiscal 2009, we acquired one nightclub operation for cash of approximately \$2.4 million. The closing occurred on September 30, 2009. This acquisition was funded with cash of \$2.3 million. This nightclub operation had total revenues of approximately \$3.6 million and \$3.8 million in 2011 and 2010, respectively and net income (loss) before taxes of approximately \$295,000 and \$(13,000) for 2011 and 2010, respectively.

During fiscal 2010, we acquired three existing nightclub operations for a total cost of approximately \$9.2 million, including real property of approximately \$4.6 million. These acquisitions were funded primarily with cash of approximately \$5.9 million, real property debt of approximately \$2.5 million, and a seller's common stock which we owned, valued at approximately \$795,000. These nightclub operations had total revenues of approximately \$7.3 million and \$4.5 million and net income before taxes of approximately \$609,000 and \$432,000 for fiscal years 2011 and 2010, respectively.

During fiscal 2011, we acquired three existing nightclub operations and opened another for a total cost of approximately \$11.3 million, including real property of approximately \$6.4 million. These acquisitions were funded with cash. These nightclub operations had total revenues of approximately \$1.6 million for fiscal year 2011, and net loss before taxes of approximately \$(620,000).

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. The acquisition of additional clubs 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.

In our Internet division, 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.

In addition to their strong cash flow, the acquisition of the Media Division has enabled us to create new marketing synergies with major industry product suppliers and new national advertising opportunities. It also provides us with additional diversification of our revenue and income streams while remaining within our core competency.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The only items in our financial statements applicable to this section are put options which are reported in our balance sheet as derivative liabilities and temporary equity. The disclosure required by this section is contained in "Put Options" above.

#### Item 8. Financial Statements and Supplementary Data.

The information required by this Item begins on Page 37.

RICK'S CABARET INTERNATIONAL, INC.  
CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Rick's Cabaret International, Inc.

We have audited the accompanying consolidated balance sheets of Rick's Cabaret International, Inc. and subsidiaries (the "Company"), as of September 30, 2011 and 2010, and the related consolidated statements of operations, changes in permanent stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of September 30, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated December 14, 2011, expressed an unqualified opinion.

/s/ WHITLEY PENN LLP

Dallas, Texas  
December 14, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
Rick's Cabaret International, Inc.

We have audited Rick's Cabaret International, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of September 30, 2011 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of September 30, 2011 and 2010, and the related consolidated statements of operations, changes in permanent stockholders' equity and cash flows for each of the three years in the period ended September 30, 2011, and our report dated December 14, 2011, expressed an unqualified opinion on those consolidated financial statements.

/s/ WHITLEY PENN LLP

Dallas, Texas  
December 14, 2011

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RICK'S CABARET INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)	September 30,	
	2011	2010
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$9,698	\$18,599
Accounts receivable:		
Trade, net	779	662
Other, net	1,161	204
Marketable securities	515	-
Inventories	1,174	1,082
Deferred tax asset	5,195	1,504
Prepaid expenses and other current assets	1,025	863
Assets of discontinued operations	112	4,851
<b>Total current assets</b>	<b>19,659</b>	<b>27,765</b>
Property and equipment, net	65,892	56,786
<b>Other assets:</b>		
Goodwill and indefinite lived intangibles, net	65,642	61,761
Definite lived intangibles, net	1,091	1,139
Other	1,093	920
<b>Total other assets</b>	<b>67,826</b>	<b>63,820</b>
<b>Total assets</b>	<b>\$153,377</b>	<b>\$148,371</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$1,215	\$696
Accrued liabilities	2,766	4,301
Texas patron tax liability	6,830	3,955
Current portion of derivative liabilities	1,209	1,276
Current portion of long-term debt	5,494	7,883
Liabilities of discontinued operations	177	588
<b>Total current liabilities</b>	<b>17,691</b>	<b>18,699</b>
Deferred tax liability	23,033	15,288
Other long-term liabilities	785	719
Long-term debt	30,060	34,803
Derivative liabilities at fair value, less current portion	-	1,243
<b>Total liabilities</b>	<b>71,569</b>	<b>70,752</b>
<b>Commitments and contingencies</b>		
Temporary equity - Common stock, subject to put rights 66 and 198 shares, respectively	1,586	4,366
<b>PERMANENT STOCKHOLDERS' EQUITY:</b>		

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Preferred stock, \$.10 par, 1,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.01 par, 20,000 shares authorized; 9,604 and 9,766 shares issued and outstanding, respectively	96	98
Additional paid-in capital	61,446	62,326
Accumulated other comprehensive income	10	-
Retained earnings	15,361	7,515
Total Rick's permanent stockholders' equity	76,913	69,939
Noncontrolling interests	3,309	3,314
Total permanent stockholders' equity	80,222	73,253
Total liabilities and stockholders' equity	\$153,377	\$148,371

See accompanying notes to consolidated financial statements.

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

(in thousands, except per share data)	Year Ended September 30,		
	2011	2010	2009
<b>Revenues:</b>			
Sales of alcoholic beverages	\$ 32,575	\$ 28,532	\$ 23,641
Sales of food and merchandise	7,402	6,327	5,615
Service revenues	38,178	34,179	31,786
Internet revenues	470	562	641
Media revenues	1,248	1,440	1,404
Other	3,618	3,023	2,328
<b>Total revenues</b>	<b>83,491</b>	<b>74,063</b>	<b>65,415</b>
<b>Operating expenses:</b>			
Cost of goods sold	10,427	9,136	7,884
Salaries and wages	18,321	16,305	14,799
Stock-based compensation	8	405	96
<b>Other general and administrative:</b>			
Taxes and permits	12,542	11,452	8,351
Charge card fees	1,361	1,229	1,300
Rent	2,988	2,737	2,166
Legal and professional	2,289	3,002	2,848
Advertising and marketing	3,471	3,167	2,588
Depreciation and amortization	3,904	3,225	2,806
Insurance	1,157	985	894
Utilities	1,605	1,507	1,390
Impairment of assets	-	3,574	-
Other	6,624	5,948	5,258
<b>Total operating expenses</b>	<b>64,697</b>	<b>62,672</b>	<b>50,380</b>
<b>Income from operations</b>	<b>18,794</b>	<b>11,391</b>	<b>15,035</b>
<b>Other income (expense):</b>			
Interest income	118	19	16
Interest expense	(3,930)	(4,023)	(3,352)
Interest expense – loan origination costs	(359)	(450)	(65)
Gain (loss) on change in fair value of derivative instruments	129	(31)	145
Gain on settlement of debt	903	-	-
Gain (loss) on sale of property and other	-	(3)	182
<b>Income from continuing operations before income taxes</b>	<b>15,655</b>	<b>6,903</b>	<b>11,961</b>
Income taxes	5,403	2,998	4,013
<b>Income from continuing operations</b>	<b>10,252</b>	<b>3,905</b>	<b>7,948</b>
Loss from discontinued operations, net of income taxes	(2,195)	(11,603)	(2,446)
<b>Net income (loss)</b>	<b>8,057</b>	<b>(7,698)</b>	<b>5,502</b>
Less: net income attributable to noncontrolling interests	(211)	(260)	(294)
<b>Net income (loss) attributable to Rick's Cabaret International, Inc.</b>	<b>\$ 7,846</b>	<b>\$ (7,958)</b>	<b>\$ 5,208</b>
<b>Basic earnings (loss) per share attributable to Rick's shareholders:</b>			

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Income from continuing operations	\$	1.01	\$	0.38	\$	0.83
Loss from discontinued operations		(0.22)		(1.20)		(0.26)
Net income (loss)	\$	0.79	\$	(0.82)	\$	0.56
Diluted earnings (loss) per share attributable to Rick's shareholders:						
Income from continuing operations	\$	1.01	\$	0.38	\$	0.81
Loss from discontinued operations		(0.22)		(1.20)		(0.26)
Net income (loss)	\$	0.79	\$	(0.82)	\$	0.55
Weighted average number of common shares outstanding:						
Basic		9,930		9,697		9,266
Diluted		9,932		9,697		9,428

See accompanying notes to consolidated financial statements.

## RICK'S CABARET INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN PERMANENT STOCKHOLDERS' EQUITY

Years Ended September 30, 2011, 2010 and 2009  
(in thousands)

	Common Stock					Treasury Stock			Total Stockholders' Equity
	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Number of Shares	Amount	Noncontrolling Interests	
Balance at October 1, 2008	9,689	\$ 97	\$ 53,948	\$ (13)	\$ 10,265	909	\$ (1,294)	\$ 3,325	\$ 66,328
Stock options exercised	300	3	745	-	-	-	-	-	748
Change in temporary equity	-	-	547	-	-	-	-	-	547
Issuance of warrants	-	-	539	-	-	-	-	-	539
Purchase of treasury shares	-	-	-	-	-	304	(1,486)	-	(1,486)
Cancelled treasury shares	(1,109)	(11)	(2,769)	-	-	(1,213)	2,780	-	-
Stock-based compensation	-	-	96	-	-	-	-	-	96
Record derivative liability	-	-	1,424	-	-	-	-	-	1,424
Payments to noncontrolling interests	-	-	-	-	-	-	-	(300)	(300)
Change in available-for-sale securities	-	-	-	13	-	-	-	-	13
Net income	-	-	-	-	5,208	-	-	294	5,502
Comprehensive income	-	-	-	-	-	-	-	-	5,515
Balance at September 30, 2009	8,880	89	54,530	-	15,473	-	-	3,319	73,411
Stock options exercised	20	-	56	-	-	-	-	-	56
Change in temporary equity	29	-	1,045	-	-	-	-	-	-