RICKS CABARET INTERNATIONAL INC
Form 10-Q
August 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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

Commission File Number: 001-13992

RICK'S CABARET INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Texas	76-0458229
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10959 Cutten Road

Houston, Texas 77066

(Address of principal executive offices) (Zip Code)

(281) 397-6730

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. Large accelerated filer ¨ Accelerated filer x 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 x

As of August 2, 2012, 9,675,748 shares of the registrant’s Common Stock were outstanding.

RICK'S CABARET INTERNATIONAL, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

(in thousands, except per share data)	June 30, 2012 (UNAUDITED)	September 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 9,652	$ 9,698
Accounts receivable:		
Trade, net	1,455	779
Other, net	491	1,161
Marketable securities	1,041	515
Inventories	1,441	1,174
Deferred tax asset	3,483	5,195
Prepaid expenses and other current assets	1,514	1,025
Assets of discontinued operations	78	112
Total current assets	19,155	19,659
Property and equipment, net	79,818	65,892
Other assets:		
Goodwill and indefinite lived intangibles, net	67,737	65,642
Definite lived intangibles, net	846	1,091
Other	1,819	1,093
Total other assets	70,402	67,826
Total assets	$ 169,375	$ 153,377

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

(in thousands, except per share data)	June 30, 2012	September 30, 2011
Liabilities and Stockholders' Equity	(UNAUDITED)	
Current liabilities:		
Accounts payable	$ 1,087	$ 1,215
Accrued liabilities	4,292	2,766
Texas patron tax liability	9,095	6,830
Current portion of derivative liabilities	252	1,209
Current portion of long-term debt	6,121	5,494
Liabilities of discontinued operations	152	177
Total current liabilities	20,999	17,691
Deferred tax liability	23,192	23,033
Other long-term liabilities	821	785
Long-term debt	37,364	30,060
Total liabilities	82,376	71,569
Commitments and contingencies		
Temporary equity - Common stock, subject to put rights 24 and 66 shares, respectively	551	1,586
PERMANENT STOCKHOLDERS' EQUITY:		
Preferred stock, $.10 par, 1,000 shares authorized; none issued and outstanding	-	-
Common stock, $.01 par, 20,000 shares authorized; 9,646 and 9,604 shares issued and outstanding, respectively	97	96
Additional paid-in capital	61,522	61,446
Accumulated other comprehensive income	36	10
Retained earnings	21,487	15,361
Total Rick's permanent stockholders' equity	83,142	76,913
Noncontrolling interests	3,306	3,309
Total permanent stockholders' equity	86,448	80,222
Total liabilities and stockholders' equity	$ 169,375	$ 153,377

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE NINE MONTHS ENDED JUNE 30,	
	2012	2011	2012	2011
	(UNAUDITED)		(UNAUDITED)	
Revenues:				
Sales of alcoholic beverages	$9,711	$8,149	$29,033	$24,312
Sales of food and merchandise	2,286	1,891	6,619	5,469
Service revenues	10,576	9,553	31,743	28,637
Internet revenues	97	113	298	359
Media revenues	137	176	496	585
Other	1,114	911	3,164	2,678
Total revenues	23,921	20,793	71,353	62,040
Operating expenses:				
Cost of goods sold	3,279	2,710	9,601	7,793
Salaries and wages	5,299	4,683	15,428	13,503
Stock compensation	12	-	33	-
Other general and administrative:				
Taxes and permits	3,618	3,096	11,018	9,316
Charge card fees	361	405	1,042	1,047
Rent	726	756	2,150	2,305
Legal and professional	992	635	2,433	1,547
Advertising and marketing	959	838	2,994	2,651
Insurance	387	300	1,027	849
Utilities	454	394	1,264	1,140
Depreciation and amortization	1,398	970	3,708	2,825
Settlement of lawsuits	200	-	2,031	-
Loss on sale of assets	332	-	332	-
Other	1,867	1,626	5,432	4,646
Total operating expenses	19,884	16,413	58,493	47,622
Operating income	4,037	4,380	12,860	14,418
Other income (expense):				
Interest income and other	(2)	2	2	57
Interest expense	(1,098)	(1,033)	(3,178)	(3,170)
Gain on settlement of debt	-	903	-	903
Gain (loss) on change in fair value of derivative instruments	(17)	(216)	120	266

Income from continuing operations before income taxes	2,920	4,036	9,804	12,474
Income taxes	1,022	1,507	3,366	4,250
Income from continuing operations	1,898	2,529	6,438	8,224
Loss from discontinued operations, net of income taxes	(22)	(1,588)	(155)	(2,179)
Net income	1,876	941	6,283	6,045
Less: net income attributable to noncontrolling interests	(53)	(53)	(159)	(159)
Net income attributable to Rick's Cabaret International, Inc.	$1,823	$888	$6,124	$5,886
Basic earnings (loss) per share attributable to Rick's shareholders:				
Income from continuing operations	$0.19	$0.25	$0.65	$0.81
Loss from discontinued operations	$(0.00)	$(0.16)	$(0.02)	$(0.22)
Net income	$0.19	$0.09	$0.63	$0.59
Diluted earnings (loss) per share attributable to Rick's shareholders:				
Income from continuing operations	$0.19	$0.25	$0.65	$0.81
Loss from discontinued operations	$(0.00)	$(0.16)	$(0.02)	$(0.22)
Net income	$0.19	$0.09	$0.63	$0.59
Weighted average number of common shares outstanding:				
Basic	9,725	9,924	9,710	9,968
Diluted	9,731	9,941	9,717	9,983

Comprehensive income for the three months ended June 30, 2012 and 2011 was $1,832 and $903, and for the nine months was $6,150 and $5,880, respectively. This includes the changes in available-for-sale securities and net income.

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	FOR THE NINE MONTHS ENDED JUNE 30, (UNAUDITED)	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$6,283	$6,045
Loss from discontinued operations, net of income taxes	155	2,179
Income from continuing operations	6,438	8,224
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	3,708	2,825
Deferred taxes	1,330	5,128
Loss on sale of assets	332	-
Amortization of note discount	109	109
Gain on settlement of debt	-	(903)
Deferred rents	37	49
Gain on change in fair value of derivative instruments	(120)	(266)
Stock compensation expense	33	-
Changes in operating assets and liabilities:		
Accounts receivable	6	(3,097)
Inventories	(231)	(76)
Prepaid expenses and other assets	(1,138)	(592)
Accounts payable and accrued liabilities	3,775	1,054
Cash provided by operating activities of continuing operations	14,279	12,455
Cash provided by (used in) operating activities of discontinued operations	(145)	1,297
Net cash provided by operating activities	14,134	13,752
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	1,245	-
Purchase of marketable securities	(500)	(505)
Additions to property and equipment	(5,089)	(7,092)
Acquisition of businesses, net of cash acquired	(1,434)	(1,967)
Additions to notes receivable	-	(2,000)
Cash used in investing activities of continuing operations	(5,778)	(11,564)
Cash used in investing activities of discontinued operations	-	(21)
Net cash used in investing activities	(5,778)	(11,585)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments related to put options	(1,491)	(1,509)
Exercise of stock options and warrants	1,040	189
Payments on long-term debt	(6,413)	(4,795)

Purchase of treasury stock	(1,376)	(2,138)
Distribution to noncontrolling interests	(162)	(162)
Cash used in financing activities of continuing operations	(8,402)	(8,415)
NET DECREASE IN CASH	(46)	(6,248)
CASH AT BEGINNING OF PERIOD	$9,698	$18,599
CASH AT END OF PERIOD	$9,652	$12,351
CASH PAID DURING PERIOD FOR:		
Interest	$2,865	$2,675
Income taxes	$1,592	$2,361

See accompanying notes to consolidated financial statements.

Non-cash transactions:

During the nine months ended June 30, 2012, the Company utilized $8 million in seller-financed long-term debt in a business acquisition and utilized $6.2 million in seller-financed long-term debt in the purchase of real estate and aircraft.

During the nine months ended June 30, 2012, the Company purchased and retired 172,415 common treasury shares. The cost of these shares was $1,377,382.

During the nine months ended June 30, 2011, the Company purchased and retired 264,140 common treasury shares. The cost of these shares was $2,137,794.

During the nine months ended June 30, 2011, the Company issued 26,320 shares of common stock for debt aggregating $269,780.

During the nine months ended June 30, 2011, the Company transferred 70,000 shares aggregating $1,400,000 from temporary equity to permanent equity in connection with the settlement of certain cross-litigation.

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q of Regulation S-X. They do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements for the year ended September 30, 2011 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. The interim unaudited consolidated financial statements should be read in conjunction with those consolidated financial statements included in the Form 10-K. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the nine months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending September 30, 2012.

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

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

In September 2011 new guidance was issued regarding the goodwill impairment testing for reporting units. This guidance gives the entity the option to perform a qualitative assessment and determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. This guidance is effective for interim and annual periods beginning after December 15, 2011. The Company has early adopted this guidance beginning with our Form 10-Q for the quarter ending December 31, 2011.

In June 2011 new guidance was issued regarding the disclosure of the components of comprehensive income. This guidance gives the entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In either option, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part ofthe statement of changes in stockholders' equity. This guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for interim and annual periods beginning after December 15, 2011 and is required to be adopted retrospectively. The Company does not believe that the requirements of this standard will have a material effect on the Company's results of operations or financial position.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012
(UNAUDITED)

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS - continued

In December 2011, the FASB issued new guidance regarding the June 2011, guidance related to the disclosure of components of comprehensive income. The guidance was issued in order to defer only those changes that relate to the presentation of reclassification adjustments, the paragraphs in this guidance supersede certain pending paragraphs in previous guidance. The amendments are being made to allow time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report 2 reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect. All other requirements of the June 2011 guidance are not affected by this update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The Company does not believe that the requirements of this standard will have a material effect on the Company's results of operations or financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

Following are certain accounting principles and disclosures which are new since September 30, 2011.

Marketable Securities

Marketable securities at June 30, 2012 consist of bond funds. ASC 320, *Investments in Debt and Equity Securities*, requires certain investments be recorded at fair value or amortized cost. The appropriate classification of the investments in marketable equity is determined at the time of purchase and re-evaluated at each balance sheet date. As of June 30, 2012, the Company's marketable securities were classified as available-for-sale, which are carried at fair value, with unrealized gains and losses reported as accumulated other comprehensive loss within the permanent stockholders' equity section of the accompanying consolidated balance sheets. The cost of marketable securities sold is determined on a specific identification basis. The fair value of marketable securities is based on quoted market prices based on Level 1 inputs -- quoted prices (unadjusted) for identical assets or liabilities in active markets. There have been no realized gains or losses related to marketable securities for the nine month periods ended June 30, 2012 or 2011. Marketable securities held at June 30, 2012 have a cost basis of approximately $1,005,056.

Fair Value of Financial Instruments

The Company calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of these financial instruments. Marketable securities are adjusted to fair market value at each balance sheet date. The estimated fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of short and long-term debt also approximates fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012
(UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Discontinued Operations

In March 2011, the Company made the decision to sell its Las Vegas location and, in April 2011, sharply reduced its operations in order to eliminate losses as it sought a buyer for the club. The Company believes that it has done everything possible to make this location viable since its acquisition in 2008 and now believes it is in its shareholders' best interests not to continue these efforts. 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 consolidated financial statements.

The Company has sold a controlling portion of the membership interest in the entity that previously operated its Rick's Cabaret in Austin, Texas. Accordingly, the Company has deconsolidated the subsidiary and carries it as an equity-method investment. The club is recognized as a discontinued operation in the accompanying consolidated financial statements.

We closed our Divas Latinas club in Houston during September 2010. This club is recognized in discontinued operations.

4. STOCK OPTIONS AND STOCK-BASED EMPLOYEE COMPENSATION

Employee and Director Stock Option Plans

In 1995, the Company adopted the 1995 Stock Option Plan (the "1995 Plan") for employees and directors. In August 1999, the Company adopted the 1999 Stock Option Plan (the "1999 Plan") and in 2010, the Company's Board of Directors approved the 2010 Stock Option Plan (the "2010 Plan") (collectively, "the Plans"). The 2010 Plan was approved by the shareholders of the Company at the 2011 Annual Meeting of Shareholders and an amendment to the 2010 Plan increasing the number of shares to 800,000 was approved by the shareholders at the 2012 Annual Meeting of Shareholders. The options granted under the Plans may be either incentive stock options, or non-qualified options. The Plans are administered by the Board of Directors or by a compensation committee of the Board of Directors. The Board of Directors has the exclusive power to select individuals to receive grants, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price equal to at least 85% of the fair market value of the common stock covered by the option on the grant date and to make all determinations necessary or advisable under the Plans.

The compensation costs recognized for the three months ended June 30, 2012 and 2011 were $12,381 and zero, respectively, and were $33,019 and zero for the nine months then ended, respectively. There were zero and 25,000 stock option exercises for the nine months ended June 30, 2012 and 2011, respectively. There were no stock option grants for the nine month period ended June 30, 2011. On June 27, 2012, the Company issued 100,000 options to the Company's directors. These options become exercisable in June 2013, have a strike price of $8.78 per share and expire in June 2014. The fair value of these options were estimated to be $160,488 at the date of grant using a Black-Scholes option-pricing model using the following weighted average assumptions:

Volatility	37	%
Expected life	1.5 years	
Expected dividend yield	-	
Risk free rate	0.31	%

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012
(UNAUDITED)

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

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company determined the initial expected life based on a simplified method in accordance with ASC 718 (also formerly SAB No. 110, *Shared-Based Payment*), giving consideration to the contractual terms, vesting schedules and pre-vesting and post-vesting forfeitures. The Company has utilized the simplified method in accordance with ASC 718 for the following reasons. Earlier in the Company’s existence, longer-term options (generally 5-year lives) were issued to employees, Directors and outsiders. In more recent years, option terms have generally become shorter (1-3 year lives) and options were issued principally to management and Directors. Then in 2010, short-term options (2-year lives) were issued to Directors, management and a substantial number of employees. Due to the changes in the terms of the option grants and the type of persons receiving the options, we believe that the historical exercise data may no longer provide a reasonable basis upon which to estimate expected term. Therefore, the Company believes that the use of the simplified method for determining the expected term of the Company’s options has been appropriate.

Stock Option Activity

The following is a summary of all stock option transactions for the nine months ended June 30, 2012:

(in thousands, except for per share and year information)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2011	520	$ 10.04		
Granted	100	$ 8.78		
Forfeited	(5)	$ 7.15		
Exercised	-	-		
Outstanding as of June 30, 2012	615	$ 9.83	0.58	$ 0
Options exercisable as of June 30, 2012	485	$ 10.21	0.25	$ 0

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012
(UNAUDITED)

5. GOODWILL AND OTHER INTANGIBLES

Following are the changes in the carrying amounts of goodwill and licenses for the nine months ended June 30, 2012 and 2011:

(in thousands)	2012		2011	
	Licenses	Goodwill	Licenses	Goodwill
Beginning balance	$42,092	$ 23,550	$41,145	$ 20,693
Intangibles acquired	1,603	-	1,151	717
Other	-	492		-
Ending balance	$43,695	$ 24,042	$42,296	$ 21,410

6. SEGMENT INFORMATION

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

(in thousands)	Three Months Ended June 30, 2012	2011	Nine Months Ended June 30, 2012	2011
Business segment sales:				
Night clubs	$23,687	$20,504	$70,559	$61,096
Media	137	176	496	585
Internet websites	97	113	298	359
	$23,921	$20,793	$71,353	$62,040
Business segment operating income:				
Night clubs	$5,230	$5,121	$17,021	$16,598
Media	(125)	(113)	(298)	(235)
Internet websites	(53)	(25)	(124)	(49)
General corporate	(1,015)	(603)	(3,739)	(1,896)
	$4,037	$4,380	$12,860	$14,418

Business segment capital expenditures:				
Night clubs	221	3,586	15,229	6,943
Other	5	3	7	4
General corporate	103	11	3,670	145
	$329	$3,600	$18,906	$7,092
Business segment depreciation and amortization:				
Night clubs	$1,214	$868	$3,291	$2,533
Media	5	5	16	15
Internet websites	1	1	3	3
General corporate	178	96	398	274
	$1,398	$970	$3,708	$2,825

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012
(UNAUDITED)

6. SEGMENT INFORMATION - continued

Business segment assets:	June 30, 2012	September 30, 2011
Night clubs	$143,994	$ 125,426
Media	931	773
Internet websites	117	107
Discontinued operations	78	112
General corporate	24,255	26,959
	$169,375	$ 153,377

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

7. COMMON STOCK

During the nine months ended June 30, 2012, the Company issued 118,856 shares for warrants exercised in the amount of $1.0 million.

During the nine months ended June 30, 2012, the Company purchased and retired 172,415 shares of Company’s common stock for its treasury at an aggregate cost of $1.4 million.

During the nine months ended June 30, 2011, the Company issued 26,320 shares of the Company’s common stock for debt aggregating $269,780.

During the nine months ended June 30, 2011, the Company purchased and retired 264,140 shares of the Company’s common stock for its treasury at an aggregate cost of $2.1 million.

8. EARNINGS PER SHARE ("EPS")

The Company computes earnings per share in accordance with FASB ASC 260, *Earnings Per Share*. ASC 260 provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of the Company.

Potential common stock shares consist of shares that may arise from outstanding dilutive common stock warrants and options (the number of which is computed using the "treasury stock method") and from outstanding convertible debentures (the number of which is computed using the "if converted method").

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012
(UNAUDITED)

8. EARNINGS PER SHARE ("EPS")

Diluted EPS considers the potential dilution that could occur if the Company's outstanding common stock options, warrants and convertible debentures were converted into common stock that then shared in the

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

	FOR THE QUARTER ENDED JUNE 30,		FOR THE NINE MONTHS ENDED JUNE 30,	
	2012	2011	2012	2011
Basic earnings per share:				
Income from continuing operations attributable to Rick's shareholders	$1,845	$2,476	$6,279	$8,065
Loss from discontinued operations, net of income taxes	(22)	(1,588)	(155)	(2,179)
Net income attributable to Rick's shareholders	$1,823	$888	$6,124	$5,886
Average number of common shares outstanding	9,725	9,924	9,710	9,968
Basic earnings per share - income from continuing operations	$0.19	$0.25	$0.65	$0.81
Basic earnings per share - discontinued operations	$(0.00)	$(0.16)	$(0.02)	$(0.22)
Basic earnings per share - net income attributable to Rick's shareholders	$0.19	$0.09	$0.63	$0.59
Diluted earnings per share:				
Income from continuing operations attributable to Rick's shareholders	$1,845	$2,476	$6,279	$8,065
Adustment. to net earnings from assumed conversion of debentures (1)	-	-	-	-
Adjusted income from continuing operations	1,845	2,476	6,279	8,065
Discontinued operations	(22)	(1,588)	(155)	(2,179)
Adjusted net income attributable to Rick's shareholders	$1,823	$888	$6,124	$5,886
Average number of common shares outstanding:				
Common shares outstanding	9,725	9,924	9,710	9,968
Potential dilutive shares resulting from exercise of warrants and options (2)	6	17	7	15
Potential dilutive shares resulting from conversion of debentures (3)	-	-	-	-
Total average number of common shares outstanding used for dilution	9,731	9,941	9,717	9,983
Diluted earnings per share - income from continuing operations atrributable to Rick's shareholders	$0.19	$0.25	$0.65	$0.81
Diluted earnings per share - discontinued operations	$(0.00)	$(0.16)	$(0.02)	$(0.22)
Diluted earnings per share - net income attributable to Rick's shareholders	$0.19	$0.09	$0.63	$0.59

*** EPS may not foot due to rounding.**

(1) Represents interest expense on dilutive convertible debentures that would not occur if they were assumed converted.

(2) All outstanding warrants and options were considered for the EPS computation.

(3) Convertible debentures (principal and accrued interest) outstanding at June 30, 2012 and 2011 totaling approximately $4.4 million and $7.4 million, respectively, were convertible into common stock at a price of $10.00 and $10.25 per share in 2012 and $10.25 in 2011. Potential dilutive shares of 433,533 and 719,056 for the three and nine months ended June 30, 2012 and 2011, respectively, have been excluded from earnings per share due to being anti-dilutive.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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9. ACQUISITIONS

Fiscal 2012

The Company’s 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”. The Company also paid $55,000 at closing for certain costs related to the access to the club. The entire $380,000 has been allocated to license.

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 (the “Prior Agreement”) with Mr. Thanasi Mantas, Green Star, Inc. (“Green Star”), Fine Dining Club, Inc. (“Fine Dining”), Blue Star Entertainment Inc. (“Blue Star”), Adelphi Group Ltd. (“Adelphi”) and PNYX Limited Partnership (“PNYX”). The Prior Agreement was amended on December 28, 2011. On January 11, 2012, (i) Green Star, Fine Dining, Mr. Mantas, Adelphi, PNYX, RCI Stemmons, RCI Dining and RCI Holdings, Inc., our wholly owned subsidiary (“RCI Holdings”), entered into a new Stock Purchase Agreement (the “Silver City Purchase Agreement”) and (ii) Blue Star, Mr. Mantas, PNYX, RCI Inwood and RCI Holdings entered into a separate Stock Purchase Agreement (the “Blue Star Purchase Agreement”), which was subsequently terminated. The entry into the Silver City Purchase Agreement and the Blue Star Purchase Agreement terminated the Prior Agreement, as amended.

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. Mr. Mantas owned 100% of the stock of Green Star and Fine Dining. Pursuant to the Silver City Purchase Agreement, Mr. Mantas agreed to sell (i) all the stock of Green Star to RCI Stemmons for the purchase price of $1,400,000 in the form of a promissory note and (ii) all the stock of Fine Dining to RCI Fine Dining for the purchase price of $100,000 in the form of a promissory note. Each of the promissory notes are payable over 11 years and have an adjustable interest rate of 5.5%. This transaction closed on January 17, 2012.

Adelphi owned the real properties where the Silver City Cabaret is located, including 7501 N. Stemmons Freeway, Dallas, Texas 75247 and 7600 John West Carpenter Freeway, Dallas, Texas 75247, and PNYX owned certain adjacent real property at 7506 John West Carpenter Freeway, Dallas, Texas 75247. In transactions related to the Prior

Agreement, Adelphi and PNYX had previously entered into real estate purchase agreements with RCI Holdings on November 17, 2011, which agreements were subsequently amended as part of the Silver City Purchase Agreement transaction. Pursuant to the real estate purchase agreements, as amended, (i) Adelphi agreed to sell the real properties at 7501 N. Stemmons and 7600 John West Carpenter for the purchase price of $6,500,000, payable $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 the real property at 7506 John West Carpenter for the purchase price of $1,000,000, payable $700,000 in cash and $300,000 in the form of an adjustable 5.5% promissory note that is payable over 11 years. The real estate transactions closed contemporaneously with the Silver City Purchase Agreement.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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9. ACQUISITIONS - continued

At closing of the Silver City Purchase Agreement transactions, Mr. Mantas entered 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 (excepting the property located at 1449 Inwood Road, Dallas, Texas 75247).

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	$7,502
Equipment and furniture	130
Noncompete	100
Inventory and other current assets	47
Goodwill	427
SOB licenses	1,221
Deferred taxes	(427)
Net assets	$9,000

The allocation of fair values are preliminary amounts and are subject to change in the future during the measurement period.

The Company incurred approximately $76,000 in legal costs associated with the acquisition, which are included in legal and professional expense in the accompanying consolidated statement of income.

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 these entities are included in the Company's consolidated results of operations since January 17, 2012. This acquisition was made to further the Company's growth objective of acquiring nightclubs that will quickly contribute to the Company's earnings per share. Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements.

On December 2, 2011, RCI Holdings entered into a Real Estate Sales Agreement with Bryan S. Foster, providing for RCI Holdings to purchase from Mr. Foster the real properties located at 12325 Calloway Cemetery Road, Fort Worth, Texas and 2151 Manana Drive, Dallas, Texas, for the aggregate purchase price of $5,500,000, including $2,000,000 cash and $3,500,000 in the form of an 8% promissory note that is payable over 10 years. The Fort Worth property represents the land for Cabaret East, one of our clubs and the Dallas property represents the land at another gentlemen's club. This transaction closed on January 13, 2012.

Fiscal 2011

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 purchase price of $4,565,000. A Purchase Agreement and Build-to-Suit Turnkey Construction Agreement had previously been entered into in December 2009, which agreement provided for the construction of the new club and the purchase of the real property located at 15000 Airport Freeway (Highway 183), Fort Worth, Texas.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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9. ACQUISITIONS - continued

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

(in thousands)

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

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.

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	717
Net assets	$1,657

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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9. ACQUISITIONS - continued

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.

10. INCOME TAXES

Income tax expense on continuing operations for the periods presented differs from the “expected” federal income tax expense computed by applying the U.S. federal statutory rate of 34% to earnings before income taxes for the three and nine months ended June 30, as a result of the following:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2012	2011	2012	2011
Computed expected tax expense	$993	$1,372	$3,333	$4,241
State income taxes	70	29	105	59
Stock option disqualifying dispositions and other permanent differences	(41)	106	(72)	(50)
Total income tax expense	$1,022	$1,507	$3,366	$4,250

Included in the Company’s deferred tax liabilities at June 30, 2012 is approximately $15.1 million representing the tax effect of indefinite lived intangible assets from club acquisitions which are not deductible for tax purposes. These deferred tax liabilities will remain in the Company’s balance sheet until the related clubs are sold.

The Company recognizes interest accrued in interest expense and penalties in operating expenses. During the nine months ended June 30, 2012 and 2011, the Company recognized approximately $16,000 and $34,000, respectively, in penalties. The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. The last three years remain open to tax examination.

11. COMMITMENTS AND CONTINGENCIES

Beginning January 1, 2008, the Company's Texas clubs became subject to a new state law requiring each club to collect and pay a $5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association ("TEA"), an organization to which the Company is a member, alleging the fee amounts to be an unconstitutional tax. On March 28, 2008, a State District Court Judge in Travis County, Texas ruled that the new state law violates the First Amendment to the United States Constitution and is therefore invalid. The judge's order enjoined the State from collecting or assessing the tax. The State appealed the Court's ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State gave notice of its right to collect the tax pending the outcome of its appeal but took no affirmative action to enforce that right. 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.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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11. COMMITMENTS AND CONTINGENCIES – continued

The TEA 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), but the U.S. Supreme Court denied the appeal on January 23, 2012. On June 28, 2012, the District Court in Travis County held a hearing on TEA Texas Constitutional claims. On July 9, 2012, the District Court entered an order finding that the tax was a constitutional occupations tax. The Court denied the remainder of TEA’s constitutional claims. TEA will appeal this decision of the District Court to the Third Court of Appeals. The Company has not made any payments of these taxes since the first quarter of 2009 and plans not to make any such payments while the case is pending in the courts. However, the Company will continue to accrue and expense the potential tax liability on our consolidated 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 paid the tax for the first five quarters and expensed the tax in the 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 June 30, 2012, the Company has approximately $9.1 million in accrued liabilities for this tax. Patron tax expense amounted to $2.3 and $2.2 million for the nine months ended June 30, 2012 and 2011, respectively. The Company has paid more than $2 million to the State of Texas since the inception of the tax. The Company’s Texas clubs have filed a separate lawsuit against the State 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.

In September 2011, the Company and its 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. On March 21, 2012, the Company agreed to a settlement in the case. The terms of the settlement provide for the payment of $2,650,000 to the plaintiff and a full and complete release of the Company and the Company's CEO. The settlement amount will be paid with approximately $850,000 in insurance proceeds and a cash payment from the Company of approximately $1.8 million. No admission of liability was made by the Company. The parties completed the settlement documents and an Order of Dismissal was entered into on April 19, 2012. The $1.8 million has been expensed in the quarter ended March 31, 2012.

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11. COMMITMENTS AND CONTINGENCIES – continued

The Company’s subsidiary that operated the 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.

Two securities class action lawsuits were filed against us in June 2011 in the U.S. District Court for the Southern District of Florida. The plaintiffs claim to represent recipients of text messages. The complaints allege that we violated the Telephone Consumer Protection Act (the “TCPA”) by sending unsolicited advertisements by text message to the plaintiff and other recipients nationwide during the four-year period preceding the lawsuit without the prior express invitation or permission of the recipients. On January 20, 2012, an amended complaint was filed in one of the cases to add one of our subsidiaries as a defendant. One of the cases was settled in June 2012 for $200,000 and this amount is included in the accompanying statement of income as settlement of lawsuits. The settlement for the other case has been presented to the judge in the case, who is expected to rule in late August 2012. The amount the Company will ultimately have to pay in this case is unknown, but the Company believes that it will be negligible.

The Company has been a defendant in a federal court, pending since March 30, 2009, in the Southern District of New York relating to claims under the Fair Labor Standards Act and New York’s wage and hour laws. Discovery is ongoing. The Company denies any liability in this matter and is vigorously defending the allegations.

12. GAIN ON SETTLEMENT OF DEBT

In April 2011, the Company settled certain cross-litigation with the former sellers of the Las Vegas club. As a result of the settlement, the Company paid the sellers approximately $1.6 million in cash as full settlement of its obligation under a debt instrument with a remaining principal and interest balance at the time of $2.5 million. The Company has recorded a gain of approximately $900,000 in the quarter ended June 30, 2011 as a result of the settlement. In addition, the Company and the sellers agreed to cancel the Lock-up/Leak-out Agreement and the Company’s obligation to purchase from the sellers any of the remaining 70,000 shares which the sellers hold. This resulted in the Company transferring $1.4 million from Temporary Equity to Permanent Equity in the quarter ended June 30, 2011.

13. SUBSEQUENT EVENTS

On July 2, 2012, the Company issued 655,000 options to certain Company employees. Of these options, 442,500 were exchanged for existing options which were to expire in September 2012. These new options become exercisable in July 2013, have a strike price of $8.35 per share and expire in July 2014. The fair value of these options was estimated to be $856,626 at the date of grant using a Black- Scholes option-pricing model using the following weighted average assumptions:

Volatility	37	%
Expected life	1.5 years	
Expected dividend yield	-	
Risk free rate	0.30	%

On August 3, 2012, our wholly owned subsidiary, Jaguars Acquisition, Inc. ("JAI"), entered into a Purchase Agreement (the "Purchase Agreement") with Bryan S. Foster and 13 entities owned by him (the "Companies"), to acquire nine operating adult cabarets and two other licensed locations under development (collectively, the "Foster Clubs"). Ten of the clubs are located in Texas, including clubs in Tye (near Abilene), Lubbock (two clubs), Odessa (two clubs), El Paso, Harlingen, Longview, Edinburg and Beaumont, and one club is located in Phoenix, Arizona. The Purchase Agreement provides for JAI and its subsidiaries to acquire certain of the Companies and the assets of certain of the Companies, whereby all 11 of the Foster Clubs will be acquired. As consideration, JAI and its subsidiaries will pay to Foster and the Companies an aggregate consideration of $26,000,000, including $4,000,000 cash at closing and $22,000,000 pursuant to a secured promissory note (the "Club Note"). The Club Note will bear interest at the rate of 9.5% per annum, be payable in 144 equal monthly installments and be secured by the assets purchased from the Companies. The Club Note is also subject to adjustment, whereby the principal amount of the promissory note will be reduced if a regulatory or administrative authority of Texas seeks to enforce or attempts to collect any tax or obligation or liability that may be due pursuant to the Texas Patron Tax.

In connection with the Purchase Agreement, our wholly owned subsidiary, Jaguars Holdings, Inc. ("JHI"), entered into a Commercial Contract (the "Real Estate Agreement") with 12 entities owned by Mr. Foster (collectively, the "Real Estate Sellers"). The Real Estate Sellers own the real estate where the Foster Clubs are located (collectively, the "Real Estate Properties"). The Real Estate Agreement provides for JHI to acquire the Real Estate Properties from the Real Estate Sellers for aggregate consideration of $10,000,000, including (i) $350,000 cash at closing of the Real Estate Agreement, (ii) $9,000,000 pursuant to a secured promissory note (the "Real Estate Note"), and (iii) 12 years from the date of closing, a one time payment of $650,000. The Real Estate Note will bear interest at the rate of 9.5% per annum, be payable in 144 equal monthly installments and be secured by the Real Estate Properties. Both the Real Estate Note and the Club Note will have cross-default provisions.

The closing of the transactions contemplated by the Purchase Agreement are to take place five business days after JAI and/or its subsidiaries have all necessary permits and authorizations which are needed to conduct an adult entertainment business at the club locations. The closing of the transactions contemplated by the Real Estate Agreement are to take place contemporaneously or as soon thereafter as possible.

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

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

FORWARD LOOKING STATEMENT AND INFORMATION

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

GENERAL

We operate in three businesses in the adult entertainment industry:

1. We own and/or operate upscale adult nightclubs serving primarily businessmen and professionals. Our nightclubs offer live adult entertainment, restaurant and bar operations. Through our subsidiaries, we currently own and/or operate a total of twenty-four 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”, one operates as “Silver City Cabaret” 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 Internet activities.

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

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

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

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

CRITICAL ACCOUNTING POLICIES

Management’s discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles (“GAAP”). GAAP consists of a set of standards issued by the FASB and other authoritative bodies in the form of FASB Statements, Interpretations, FASB Staff Positions, Emerging Issues Task Force consensuses and American Institute of Certified Public Accountants Statements of Position, among others. The Company has updated references to GAAP in this Form 10-Q to reflect the guidance in the ASC. The preparation of these consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate these estimates, including investment impairment. These estimates are based on management’s historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Accounts and Notes Receivable

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

Inventories

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

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. We determined that there is no net asset impairment at September 30, 2011.

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, *Accounting for Derivative Financial*

Instruments Indexed to, and Potentially Settled in a Company's Own Stock. Under certain circumstances that would require the Company to settle these equity items in cash, and without regard to probability, FASB ASC 815 would require the classification of all or part of the item as a liability and the adjustment of that reclassified amount to fair value at each reporting date, with such adjustments reflected in the Company's consolidated statements of income. The first instrument to meet the requirements of FASB ASC 815 for derivative accounting occurred in the quarter ended June 30, 2010 when the Company renegotiated the payback terms of certain put options and agreed to pledge as collateral to certain holders a second lien on certain property.

Revenue Recognition

The Company recognizes revenue from the sale of alcoholic beverages, food and merchandise, other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

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

Revenues from the sale of magazines and advertising content are recognized when the issue is published and shipped. Revenues and external expenses related to the Company's annual Expo convention are recognized upon the completion of the convention in August.

Sales and Liquor Taxes

The Company recognizes sales and liquor taxes paid as revenues and an equal expense in accordance with FASB ASC 605, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement.* Total sales and liquor taxes aggregated $5.1 million and $4.5 million for the nine months ended June 30, 2012 and 2011, 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

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

The stock option compensation costs recognized for the quarters ended June 30, 2012 and 2011 were $12,381 and zero, respectively, and were $33,016 and zero, respectively, for the nine months then ended. There were zero and 25,000 stock option exercises for the nine months ended June 30, 2012 and 2011, respectively. There were no stock option grants for the nine month period ended June 30, 2011. On June 27, 2012, the Company issued 100,000 options to the Company's directors. These options become exercisable in June 2013, have a strike price of $8.78 per share and expire in June 2014.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2012 AS COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2011

For the three months ended June 30, 2012, we had consolidated total revenues of $23.9 million compared to consolidated total revenues of $20.8 million for the three months ended June 30, 2011, an increase of $3.1 million or 15.0%. The increase in total revenues was primarily attributable to the newly acquired club in Dallas along with strong results from Tootsie's Cabaret in Miami and Club Onyx locations in Philadelphia and Charlotte. The Rick's

Cabaret at Dallas-Ft. Worth Airport, which was granted a license to serve alcohol earlier this year, reported a strong increase in sales compared with the same quarter last year, when it operated as a BYOB establishment. Sales at the Company's other BYOB establishments, which operate under the XTC Cabaret brand, also increased. Total revenues for same-location-same-period of club operations increased by 5.0% to $21.3 million for the three months ended June 30, 2012 from $20.3 million for the same period ended June 30, 2011.

Following is a comparison of the Company's income statement for the quarters ended June 30, 2012 and 2011 with percentages compared to total revenue:

(in thousands)	2012	%	2011	%
Sales of alcoholic beverages	$9,711	40.6 %	$8,149	39.2 %
Sales of food and merchandise	2,286	9.6 %	1,891	9.1 %
Service Revenues	10,576	44.2 %	9,553	45.9 %
Internet Revenues	97	0.4 %	113	0.5 %
Media	137	0.6 %	176	0.8 %
Other	1,114	4.7 %	911	4.4 %
Total Revenues	23,921	100.0%	20,793	100.0%
Cost of Goods Sold	3,279	13.7 %	2,710	13.0 %
Salaries & Wages	5,299	22.2 %	4,683	22.5 %
Stock-based Compensation	12	0.1 %	-	0.0 %
Taxes and permits	3,618	15.1 %	3,096	14.9 %
Charge card fees	361	1.5 %	405	1.9 %
Rent	726	3.0 %	756	3.6 %
Legal & professional	992	4.1 %	635	3.1 %
Advertising and marketing	959	4.0 %	838	4.0 %
Insurance	387	1.6 %	300	1.4 %
Utilities	454	1.9 %	394	1.9 %
Depreciation and amortization	1,398	5.8 %	970	4.7 %
Settlement of lawsuit	200	0.8 %	-	0.0 %
Loss on sale of assets	332	1.4 %	-	0.0 %
Other	1,867	7.8 %	1,626	7.8 %
Total operating expenses	19,884	83.1 %	16,413	78.9 %
Operating income	4,037	16.9 %	4,380	21.1 %
Interest income and other	(2)	0.0 %	2	0.0 %
Interest expense	(1,098)	-4.6 %	(1,033)	-5.0 %
Gain on settlement of debt	-	0.0 %	903	4.3 %
Gain (loss) on change in fair value of derivative instruments	(17)	-0.1 %	(216)	-1.0 %
Income from continuing operations before income taxes	$2,920	12.2 %	$4,036	19.4 %

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

Service revenues include cover charges, fees paid by entertainers, room rentals, memberships and fees charged for credit card processing. Other revenues include ATM commissions earned, video games and other vending and certain promotion fees charged to our entertainers. We recognize revenue from other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding, media postage and internet traffic purchases and webmaster payouts. Media cost of goods amounted to 32.1% and 36.6% for the quarters ended June 30, 2012 and 2011, respectively. The cost of goods sold for the club operations for the three months ended June 30, 2012 was 13.7% compared to 12.9% for the three months ended June 30, 2011. The cost of goods sold from our internet operations for the three months ended June 30, 2012 was 2.1% compared to 2.0% for the three months ended June 30, 2011. The cost of goods sold for same-location-same-period of club operations for the three months ended June 30, 2012 was 13.5%, compared to 12.9% for the same period ended June 30, 2011. The principal reasons for the slight increase is due to more alcohol-selling clubs this year (Silver City and Rick's DFW) and due to more discounting of beer in certain clubs in 2012.

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The increase in payroll and related costs, stated as "Salaries & Wages" above, was primarily due to the addition of the new clubs. Payroll for same-location-same-period of club operations was $4.0 million for the three months ended June 30, 2012 compared to $3.8 million for the three months ended June 30, 2011. Management currently believes that its labor and management staff levels are appropriate.

The decrease in rent expense as a percentage of revenues is due to the Company's purchase of the real estate with its recent acquisitions.

The increase in legal and professional is due generally to the lawsuits mentioned in Commitments and Contingencies in Notes to Consolidated Financial Statements.

Also see Commitments and Contingencies in Notes to Consolidated Financial Statements for an explanation of the settlement of lawsuits.

Generally, the increase in other expense categories is due to the increase in clubs and revenues.

The loss on sale of assets is the result of the sale of an aircraft.

Income taxes, as a percentage of income before taxes was 35.0% and 37.3% for the quarters ended June 30, 2012 and 2011, respectively due to the tax effect of the larger nondeductible loss on change in fair value of derivative instruments during 2011.

The loss on the change in fair value of derivative instruments is due to the falling price of the Company's common stock in each quarter.

Operating income (exclusive of corporate overhead) for same-location-same-period of club operations was $5.5 million for each of the three months ended June 30, 2012 and 2011.

Our Media Division lost approximately $125,000 before income taxes for the quarter ended June 30, 2012 compared to a loss of approximately $113,000 in the 2011 quarter. As the economy improves, we believe the Media Division will become profitable as we control costs and increase marketing revenues.

Our “operating margin”, the percentage of operating income to total revenues, was 16.9% and 21.1% for the quarters ended June 30, 2012 and 2011, respectively. The 2012 quarter was affected by the settlement of lawsuit of $200,000 and the loss on sale of assets. Without those expenses, the 2012 quarter operating margin would have been 18.3%. Without the lawsuit settlement and the loss on sale of aircraft, net income would have been $2.2 million and diluted earnings per share would have been $0.22.

Adjusted EBITDA for the three months ended June 30, 2012 and 2011 was $5.4 million and $6.0 million, respectively.

Adjusted EBITDA is a financial statement measure that was not derived in accordance with GAAP. We use adjusted EBITDA (earnings from continuing operations before interest expense, income taxes, depreciation, amortization and impairment charges) as a non-GAAP performance measure. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation, amortization and impairment charges. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for Federal, state and local taxes which have considerable variation between domestic jurisdictions. Also, we exclude interest cost in our calculation of adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our acquisitions of nightclubs. Reconciliations from net income to adjusted EDITDA are provided below for the quarters ended June 30:

(in thousands)	2012	2011
Income from continuing operations	$1,898	$2,529
Net income from noncontrolling interests	(53)	(53)
Income taxes	1,022	1,507
Interest expense	1,098	1,033
Depreciation and amortization	1,398	970
Adjusted EBITDA	$5,363	$5,986

Without the settlement of lawsuit and loss on sale of aircraft in 2012, EBITDA would have been $5.7 million.

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

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JUNE 30, 2012 AS COMPARED TO THE NINE MONTHS ENDED JUNE 30, 2011

For the nine months ended June 30, 2012, we had consolidated total revenues of $71.3 million compared to consolidated total revenues of $62.0 million for the nine months ended June 30, 2011, an increase of $9.3 million or 15.0%. The increase in total revenues was primarily attributable to clubs acquired during last year along with positive results from the NBA Championship series in Miami and strong results from the Rick’s locations at DFW Airport and Austin, Onyx locations in Philadelphia and Charlotte and XTC Dallas. Total revenues for same-location-same-period of club continuing operations increased 5.8% to $63.8 million for the nine months ended June 30, 2012 from $60.3

million for the same period ended June 30, 2011.

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Following is a comparison of the Company's income statement for the nine months ended June 30, 2012 and 2011 with percentages compared to total revenue:

(in thousands)	2012	%	2011	%
Sales of alcoholic beverages	$29,033	40.7 %	$24,312	39.2 %
Sales of food and merchandise	6,619	9.3 %	5,469	8.8 %
Service Revenues	31,743	44.5 %	28,637	46.2 %
Internet Revenues	298	0.4 %	359	0.6 %
Media	496	0.7 %	585	0.9 %
Other	3,164	4.4 %	2,678	4.3 %
Total Revenues	71,353	100.0%	62,040	100.0%
Cost of Goods Sold	9,601	13.5 %	7,793	12.6 %
Salaries & Wages	15,428	21.6 %	13,503	21.8 %
Stock-based Compensation	33	0.0 %	-	0.0 %
Taxes and permits	11,018	15.4 %	9,316	15.0 %
Charge card fees	1,042	1.5 %	1,047	1.7 %
Rent	2,150	3.0 %	2,305	3.7 %
Legal & professional	2,433	3.4 %	1,547	2.5 %
Advertising and marketing	2,994	4.2 %	2,651	4.3 %
Insurance	1,027	1.4 %	849	1.4 %
Utilities	1,264	1.8 %	1,140	1.8 %
Depreciation and amortization	3,708	5.2 %	2,825	4.6 %
Settlement of lawsuit	2,031	2.8 %	-	0.0 %
Loss on sale of assets	332	0.5 %	-	0.0 %
Other	5,432	7.6 %	4,646	7.5 %
Total operating expenses	58,493	82.0 %	47,622	76.8 %
Operating income	12,860	18.0 %	14,418	23.2 %
Interest income	2	-0.0 %	57	0.1 %
Interest expense	(3,178)	-4.5 %	(3,170)	-5.1 %
Gain on settlement of debt	-	0.0 %	903	1.5 %
Gain (loss) on change in fair value of derivative instruments	120	0.2 %	266	0.4 %
Income from continuing operations before income taxes	$9,804	13.7 %	$12,474	20.1 %

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

Service revenues include cover charges, fees paid by entertainers, room rentals, memberships and fees charged for credit card processing. Other revenues include ATM commissions earned, video games and other vending and certain promotion fees charged to our entertainers. We recognize revenue from other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding, media postage and internet traffic purchases and webmaster payouts. Media cost of goods amounted to 32.5% and 29.2% for the nine months ended June 30, 2012 and 2011, respectively. The cost of goods sold for the club operations for the nine months ended June 30, 2012 was 13.4% compared to 12.5% for the nine months ended June 30, 2011 The cost of goods sold from our internet operations for the nine months ended June 30, 2012 was 1.5% compared to 2.1% for the nine months ended June 30, 2011. The cost of goods sold for same-location-same-period of club operations for the nine months ended June 30, 2012 was 13.2%, for the nine months ended June 30, 2012 compared to 12.5% for the nine months ended June 30, 2011. The principal reasons for the slight increase is due to more alcohol-selling clubs this year (Silver City and Rick's DFW) and due to more discounting of beer in certain clubs in 2012.

Payroll for same-location-same-period of club operations increased to $11.3 million for the nine months ended June 30, 2012 from $10.9 million for the same period ended June 30, 2011. Management currently believes that its labor and management staff levels are appropriate.

The decrease in rent expense as a percentage of revenues is due to the Company's purchase of the real estate with its recent acquisitions.

The increase in legal and professional is due generally to the lawsuits mentioned in Commitments and Contingencies in Notes to Consolidated Financial Statements.

Also see Commitments and Contingencies in Notes to Consolidated Financial Statements for an explanation of the settlement of lawsuits.

Generally, the increase in other expense categories is due to the increase in clubs and revenues.

The loss on sale of assets is the result of the sale of an aircraft.

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

Income taxes, as a percentage of income before taxes was 34.3% and 34.1% for the nine months ended June 30, 2012 and 2009, respectively.

The gain on settlement of debt was the result of the settlement of certain cross-litigation with the former sellers of the Las Vegas club.

Our Media Division lost approximately $298,000 before income taxes for the nine months ended June 30, 2012 compared to a loss of approximately $235,000 in the nine months ended June 30, 2011. As the economy improves, we believe the Media Division will become profitable as we control costs and increase marketing revenues.

Our "operating margin", the percentage of operating income to total revenues, was 18.0% and 23.2% for the nine months ended June 30, 2012 and 2011, respectively. The 2012 period was affected by the settlement of lawsuits of $2.0 million and loss on sale of assets. Without those expenses, the 2012 quarter operating margin would have been 20.2%. Without the lawsuit settlement and the loss on sale of aircraft, net income would have been $7.7 million and diluted earnings per share would have been $0.79.

Adjusted EBITDA for the nine months ended June 30, 2012 and 2011 was $16.5 million and $18.3 million, respectively.

Adjusted EBITDA is a financial statement measure that was not derived in accordance with GAAP. We use adjusted EBITDA (earnings from continuing operations before interest expense, income taxes, depreciation, amortization and impairment charges) as a non-GAAP performance measure. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation, amortization and impairment charges. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for Federal, state and local taxes which have considerable variation between domestic jurisdictions. Also, we exclude interest cost in our calculation of adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our acquisitions of nightclubs. Reconciliations from net income to adjusted EDITDA are provided below for the nine months ended June 30:

(in thousands)	2012	2011
Income from continuing operations	$6,438	$8,224
Net income from noncontrolling interests	(159)	(159)
Income taxes	3,366	4,250
Interest expense	3,178	3,170
Depreciation and amortization	3,708	2,825
Adjusted EBITDA	$16,531	$18,310

Without the settlement of lawsuit and loss on sale of aircraft in 2012, EBITDA would have been $18.1 million.

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

Discontinued Operations

In March 2011, the Company made the decision to sell its Las Vegas location and, in April 2011, sharply reduced its operations in order to eliminate losses as it seeks a buyer for the property. The Company believes that it has done everything possible to make this location viable since its acquisition in 2008 and now believes it is in its shareholders' best interests not to continue these efforts. 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.

The Company has plans to sell a portion of the membership interest in the entity that previously operated its Rick's Cabaret in Austin, Texas. When the sale is closed, the Company will deconsolidate the subsidiary and carry it as an equity-method investment. Accordingly, the club is recognized as a discontinued operation in the accompanying financial statements.

Following is summarized information regarding these discontinued operations:

	Quarter Ended June 30,	
(in thousands)	2012	2011
Loss from discontinued operations	$ (32)	(247)
Loss on disposition	$ -	(2,197)
Income tax - discontinued operations	10	856
Total loss from discontinued operations, net of tax	$ (22)	$ (1,588)

	Nine Months Ended June 30,	
(in thousands)	2012	2011
Loss from discontinued operations	$ (239)	(1,104)

Loss on disposition	$ -	(2,249)
Income tax - discontinued operations	84	1,174
Total loss from discontinued operations, net of tax	$ (155)	$ (2,179)

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

(in thousands)	June 30, 2012	September 30, 2011
Current assets	$ 27	$ 33
Property and equipment	49	76
Other assets	2	3
Current liabilities	(119)	(144)
Long-term liabilities	(33)	(33)
Net assets (liabilities)	$ (74)	$ (65)

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LIQUIDITY AND CAPITAL RESOURCES

Working Capital and Cash Flows

At June 30, 2012, we had working capital deficit of approximately $1.8 million compared to working capital of approximately $2.0 million at September 30, 2011. The decrease is principally due to the purchase of 2 nightclubs and the real estate of another club aggregating $8.7 million during the nine months, payments on long-term debt and purchase of put options and related derivatives during the period.

Net cash provided by operating activities was $14.1 million and $13.8 for the nine months ended June 30, 2012 and 2011, respectively.

We used $5.8 million of cash in investing activities during the nine months ended June 30, 2012 compared to $11.6 million during the nine months ended June 30, 2011. The larger amount during the 2011 quarter was due to a larger amount of cash acquisitions of businesses and a $2 million note receivable. Cash of $8.4 million was used by financing activities during each of the nine months ended June 30, 2012 and 2011.

Following is a reconciliation of our additions to property and equipment for the nine months ended June 30, 2012 and 2011:

(in thousands)	Nine Months Ended June 30, 2012	2011
Acquisition of real estate	$5,900	$5,245
Purchase of aircraft	3,231	-
Capital expenditures funded by debt	(6,236)	-
New capital expenditure in new clubs	541	683
Maintenance capital expenditures	1,653	1,164
Total capital expenditures in consolidated statement of cash flows	$5,089	$7,092

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

Put Options

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

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

The maximum obligation that could be owed if our stock were valued at zero is $938,000 at June 30, 2012. If we are required to buy back any of these put options, the buy-back transaction will be purely a balance sheet transaction, affecting only Temporary Equity or Derivative Liability and Stockholders' Equity and will have no income statement effect. The only income statement effect from these put options is the "mark to market" valuation quarterly of the derivative liability.

Following is a schedule of the annual obligation (after the renegotiation) we would have if our stock price remains in the future at the closing market price on June 30, 2012 of $8.67 per share, of which there can be no assurance: (This includes the derivative financial instruments recognized in our balance sheet at June 30, 2012.)

For the Year Ended September 30:	(in thousands)
2012	$ 459
2013	137
Total	$ 596

Each $1.00 per share movement of our stock price has an aggregate effect of $39,450 on the total obligation.

<u>Other Liquidity and Capital Resources</u>

We have not established lines of credit or financing other than the above mentioned notes payable and our existing debt. There can be no assurance that we will be able to obtain additional financing on reasonable terms in the future, if at all, should the need arise.

On September 29, 2008, our Board of Directors authorized us to repurchase up to $5,000,000 worth of our common stock in the open market. During the nine months ended June 30, 2012 and 2011, 76,865 shares and 49,340 shares, respectively, were purchased under this program.

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We believe that the adult entertainment industry standard of treating entertainers as independent contractors provides us with safe harbor protection to preclude payroll tax assessment for prior years. We have prepared plans that we believe will protect our profitability in the event that sexually oriented business industry is required in all states to convert dancers who are now independent contractors into employees.

The sexually oriented business industry is highly competitive with respect to price, service and location, as well as the professionalism of the entertainment. Although management believes that we are well-positioned to compete successfully in the future, there can be no assurance that we will be able to maintain our high level of name recognition and prestige within the marketplace.

IMPACT OF INFLATION

We have not experienced a material overall impact from inflation in our operations during the past several years. To the extent permitted by competition, we have managed to recover increased costs through price increases and may continue to do so. However, there can be no assurance that we will be able to do so in the future.

SEASONALITY

Our nightclub operations are affected by seasonal factors. Historically, we have experienced reduced revenues from April through September with the strongest operating results occurring during October through March. Our experience to date indicates that there does not appear to be a seasonal fluctuation in our Internet activities.

GROWTH STRATEGY

We believe that our nightclub operations can continue to grow organically and through careful entry into markets and demographic segments with high growth potential. Our growth strategy is: (a) to open new clubs after careful market research, (b) to acquire existing clubs in locations that are consistent with our growth and income targets and which appear receptive to the upscale club formula we have developed, as is the case with the acquisitions of the clubs in Austin, Dallas and Fort Worth, Texas, Miami Gardens, Florida, Philadelphia, Pennsylvania and Indianapolis, Indiana, (c) to form joint ventures or partnerships to reduce start-up and operating costs, with us contributing equity in the form of our brand name and management expertise, (d) to develop new club concepts that are consistent with our management and marketing skills, (e) to acquire real estate in connection with club operations, although some clubs may be in leased premises, and/or (f) to enter into licensing agreements in strategic locations.

We continue to evaluate opportunities to acquire new nightclubs and anticipate acquiring new locations that fit our business model as we have done in the past.

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

The acquisition of additional clubs and/or internet operations will require us to obtain additional debt or issuance of our common stock, or both. There can be no assurance that we will be able to obtain additional financing on reasonable terms in the future, if at all, should the need arise. An inability to obtain such additional financing could have an adverse effect on our growth strategy.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of June 30, 2012, there were no material changes to the information provided in Item 7A of the Company's Annual Report on Form 10-K for fiscal year ended September 30, 2011.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's senior management, including the Company's chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on this evaluation, the Company's chief executive officer and chief financial officer concluded as of the Evaluation Date that the Company's disclosure controls and procedures were effective such that the information relating to the Company, including consolidated subsidiaries, required to be disclosed in the Company's Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2012 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Beginning January 1, 2008, 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 gave notice of its right to collect the tax pending the outcome of its appeal but took no affirmative action to enforce that right. 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 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), but the U.S. Supreme Court denied the appeal on January 23, 2012. On June 28, 2012, the District Court in Travis County held a hearing on TEA Texas Constitutional claims. On July 9, 2012, the District Court entered an order finding that the tax was a constitutional occupations tax. The Court denied the remainder of the TEA's constitutional claims. TEA will appeal this decision of the District Court to the Third Court of Appeals. We have not made any payments of these taxes since the first quarter of 2009 and plan not to make any such payments 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.

We have paid the tax under protest during all four quarters of 2008 and the first quarter of 2009 and expensed the tax in the 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 June 30, 2012, we have approximately $9.1 million in accrued liabilities for this tax. Patron tax expense amounted to $826,000 and 796,000 for the three months ended June 30, 2012 and 2011, respectively. 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.

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.

In September 2011, the Company and its 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. On March 21, 2012, the Company agreed to a settlement in the case. The terms of the settlement provide for the payment of $2,650,000 to the plaintiff and a full and complete release of the Company and the Company's CEO. The settlement amount will be paid with approximately $850,000 in insurance proceeds and a cash payment from the Company of approximately $1.8 million. No admission of liability was made by the Company. The parties completed the settlement documents and an Order of Dismissal was entered into on April 19, 2012. The $1.8 million has been expensed in the quarter ended March 31, 2012.

The Company's subsidiary that operated the 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.

Two securities class action lawsuits were filed against us in June 2011 in the U.S. District Court for the Southern District of Florida. The plaintiffs claim to represent recipients of text messages. The complaints allege that we violated the Telephone Consumer Protection Act (the "TCPA") by sending unsolicited advertisements by text message to the plaintiff and other recipients nationwide during the four-year period preceding the lawsuit without the prior express invitation or permission of the recipients. On January 20, 2012, an amended complaint was filed in one of the cases to add one of our subsidiaries as a defendant. One of the cases was settled in June 2012 for $200,000 and this amount is included in the accompanying statement of income as settlement of lawsuits. The settlement for the other case has been presented to the judge in the case, who is expected to rule in late August 2012. The amount we will ultimately have to pay in this case is unknown, but the Company believes that it will be negligible.

We have been a defendant in a federal court, pending since March 30, 2009, in the Southern District of New York relating to claims under the Fair Labor Standards Act and New York's wage and hour laws. Discovery is ongoing. The Company denies any liability in this matter and is vigorously defending the allegations.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2011, as such factors could materially affect the Company's business, financial condition or future results. In the three months ended June 30, 2012, there were no material changes to the risk factors disclosed in the Company's 2011 Annual Report on Form 10-K. The risks described in the Annual Report on Form 10-K are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On June 27, 2012, we granted an aggregate of 100,000 stock options to members of our Board of Directors as director compensation. All of the options (i) are exercisable on June 27, 2013, (ii) expire on June 27, 2014, and (iii) are exercisable into shares of our common stock at an exercise price of $8.78 per share. We granted the options under the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and the rules and regulations promulgated thereunder. The grant did not involve a "public offering" based upon the following factors: (i) the issuance of the securities was an isolated private transaction; (ii) a limited number of securities were issued to a limited number of offerees; (iii) there was no public solicitation; (iv) the offerees were "accredited investors"; (v) the investment intent of the offerees; and (vi) the restriction on transferability of the securities issued.

During the three months ended June 30, 2012, we purchased 49,625 shares of common stock on the open market at an average price of $7.93 per share. During the three months ended June 30, 2012, we purchased 29,550 shares of common stock from put option holders at prices ranging from $7.65 to $9.50 per share. Following is a summary of our purchases by month:

Period: Month Ending	(a) Total Number of Shares (or	(b) Average Price Paid per	(c) Total Number of Shares (or	(d) Maximum Number (or Approximate

	Units) Purchased	Share	Units) Purchased as Part of Publicly Announced Plans or Programs	Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
April 30, 2012	9,550	$ 9.50	-	$ 3,008,301
May 31, 2012	32,725	$ 8.42	-	$ 2,985,576
June 30, 2012	36,900	$ 7.84	-	$ 2,958,676
Total for the three months ended June 30, 2012	79,175	$ 8.28	-	$ 2,958,676

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Item 6. Exhibits.

Exhibit 31.1 – Certification of Chief Executive Officer of Rick's Cabaret International, Inc. required by Rule 13a – 14(1) or Rule 15d – 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 – Certification of Chief Financial Officer of Rick's Cabaret International, Inc. required by Rule 13a – 14(1) or Rule 15d – 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 -- Certification of Chief Executive Officer of Rick's Cabaret International, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.

Exhibit 32.2 -- Certification of Chief Financial Officer of Rick's Cabaret International, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.

101.INS

XBRL Instance Document.

101.SCH

XBRL Taxonomy Extension Schema Document.

101.CAL

XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF

XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB

XBRL Taxonomy Extension Label Linkbase Document.

101.PRE

XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	RICK'S CABARET INTERNATIONAL, INC.
Date: August 9, 2012	By: /s/ Eric S. Langan Eric S. Langan Chief Executive Officer and President
Date: August 9, 2012	By: /s/ Phillip K. Marshall Phillip K. Marshall Chief Financial Officer and Principal Accounting Officer