

RICKS CABARET INTERNATIONAL INC
Form 10KSB
December 20, 2007

United States Securities and Exchange Commission
Washington, D.C. 20549

Form 10-KSB

- Annual Report under Section 13 Or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 30, 2007
 Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-26958

RICK'S CABARET INTERNATIONAL, INC.
(Name of Small Business Issuer in Its Charter)

Texas
(State or Other Jurisdiction of Incorporation or
Organization)

76-0458229
(IRS Employer Identification No.)

10959 Cutten Road, Houston, Texas 77066
(Address of Principal Executive Offices)

(281) 397-6730
(Issuer's Telephone Number)

Securities Registered Under Section 12(b) Of The Exchange Act:

Title Of Each Class	n/a
Name Of Each Exchange On Which Registered	n/a

Securities Registered Pursuant to 12(g) of the Exchange Act:

Title Of Each Class
Common Stock, \$.01 Par Value

Check whether the issuer: (i) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained herein, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The Issuer's revenues for the year ended September 30, 2007 were \$32,013,940.

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The aggregate market value of Common Stock held by non-affiliates of the registrant at December 7, 2007, based upon the last reported sales prices on the NASDAQ Global Market of \$23.32 was \$104,132,218.

As of December 7, 2007, there were approximately 7,521,850 shares of Common Stock outstanding (excluding treasury shares).



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PART I

ITEM 1. BUSINESS

INTRODUCTION

Our name is Rick's Cabaret International, Inc. We currently own and/or operate a total of fifteen adult nightclubs that offer live adult entertainment, restaurant and bar operations. Five of our clubs operate under the name "Rick's Cabaret"; one operates under the name of "New Orleans Nights", which will be converted to "Rick's" once the ongoing renovation is completed; three operate under the name "Club Onyx", upscale venues that welcome all customers but cater especially to urban professionals, businessmen and professional athletes; four of the clubs operate under the name "XTC" and one club that operates as "Encounters", and one club that operates as "Tootsie's". Our nightclubs are in Houston, Austin, San Antonio, and Fort Worth, Texas; Charlotte, North Carolina; Minneapolis, Minnesota; New York, New York; and Miami Gardens, Florida. We also own and operate premiere adult entertainment Internet websites.

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

Our website address is www.Ricks.com. We make available free of charge our Annual Report on Form 10-KSB, Quarterly Reports on Form 10-QSB, Current Reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC under Securities Exchange Act of 1934, as amended. Information contained in the website shall not be construed as part of this Form 10-KSB.

References to "us" or "the Company" include our 100%-owned, 85%-owned and 51%-owned consolidated subsidiaries.

BUSINESS ACTIVITIES--NIGHTCLUBS

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

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

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

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

Compliance Policies/Credit Cards. We review all credit card charges made by our customers. We have in place a formal policy requiring that all credit card charges must be approved, in writing, by management before any charges are accepted.

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Management is trained to review credit card charges to ensure that the only charges approved for payment are for food, drink and entertainment.

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

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

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

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

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

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

NIGHTCLUB LOCATIONS

We currently operate clubs under the name “Rick's Cabaret” in Houston, San Antonio, and Austin, Texas, Minneapolis, Minnesota, and New York, New York. We operate a similar type club under the name of “New Orleans Nights” in Fort Worth, Texas. We are currently renovating the second floor of the building and plan to change the name to Rick’s once it is completed. We also operate a similar nightclub under the name “Tootsie’s” in Miami Gardens, Florida. We also operate two nightclubs in Houston and one in Charlotte, North Carolina, as “Club Onyx”, upscale venues that welcome all customers but cater especially to urban professionals, businessmen and professional athletes. Additionally, we own four nightclubs in San Antonio, Austin, and Houston, Texas that operate under the name XTC. We sold our New Orleans, Louisiana nightclub in March 1999, but it continues to use the name “Rick’s Cabaret” under a licensing agreement.

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RECENT NIGHTCLUB TRANSACTIONS

1. On May 9, 2006, we purchased Joint Ventures, Inc., an operator of an adult nightclub in South Houston, Texas, formerly known as Dreamers Cabaret & Sports Bar located at 802 Houston Blvd. The purchase price of \$840,000 was paid in cash. The club, located in a Houston suburb, has been converted to an XTC Cabaret.
2. On July 7, 2006, we entered into a stock purchase agreement to acquire Texas S&I, Inc., a Texas corporation, for \$125,000, consisting of \$55,000 paid in cash at closing and \$70,000 in a five year note payable bearing interest at a rate of 4% per annum. The note was paid off in full. Texas S&I, Inc. owned and operated Club Exotica in San Antonio. We have converted this club into "Club Encounters".
3. On August 24, 2006, our subsidiary, RCI Debit Services, Inc., acquired 99% of the ownership interest in an adult entertainment cabaret known as "Centerfolds" located at 5418 Brewster Street, San Antonio, Texas. Additionally, under the terms of the transaction, our subsidiary, RCI Holdings, Inc. acquired 100% of the interest in the improved real property upon which Centerfolds is located. The total purchase price for the business and real property was \$2,900,000. Under terms of the agreement, we paid the owners of the club and property \$600,000 in cash at the time of closing and signed promissory notes for the remaining balance. In addition, certain members of the current ownership structure entered a five-year covenant not to compete with us. We have converted this club into "Rick's Cabaret San Antonio".
4. On November 10, 2006, we purchased a 51% ownership interest of Playmate's Gentlemen's Club LLC, an operator of an adult nightclub in Austin, Texas. The club is located at 8110 Springdale Street, Austin, Texas. The purchase price of \$1,500,000 was paid \$500,000 cash at closing and 125,000 shares of our restricted common stock. The club has been converted to a "Rick's Cabaret Austin". As part of the agreement, twelve months after the closing date, the seller has the right, but not the obligation, to have us buy the shares at a price of \$8.00 per share at a rate of no more than 5,000 shares per month until such time as the seller receives a total of \$1,000,000 from the sale of such shares. Alternatively, the seller has the option to sell such shares in the open market. The transaction was the result of arms-length negotiations between the parties.
5. On April 23, 2007, we completed a transaction for the purchase of 100% of the outstanding common stock of W.K.C., Inc., a Texas corporation (the "Business"), which owned and operated an adult entertainment cabaret known as New Orleans Nights ("New Orleans Nights") located in Fort Worth, Texas. Pursuant to the Stock Purchase Agreement, we acquired the Business for a total cash purchase price of \$4,900,000. In addition, RCI Holdings, Inc., our wholly owned subsidiary ("RCI"), entered into an Assignment of that certain Real Estate Sales Contract between the owner of the property and W.K.C., Inc. for the purchase of the real property located at 7101 Calmont, Fort Worth, Texas 76116 (the "Real Property") where New Orleans Nights is located for a total purchase price of \$2,500,000, which consisted of \$100,000 in cash and \$2,400,000 payable in a six year promissory note to the sellers which will accrue interest at the rate of 7.25% for the first two years, 8.25% for years three and four and 9.25% thereafter (the "Promissory Note"). The Promissory Note is secured by a Deed of Trust and Security Agreement. Further, RCI entered into an Assignment and Assumption of Lease Agreement with the sellers to assume the lease agreement for the Real Property. We are currently renovating the second floor of the building and plan to change the name to Rick's once it is completed.
6. On May 10, 2007, we entered into a Licensing Agreement with Rick's Buenos Aires Sociedad Anonima ("Licensee"), a corporation organized under the laws of Argentina. Under the terms of the Licensing Agreement, we agreed to grant Licensee a license for use and exploitation of our logos, trademarks and service marks for the operation of an adult entertainment facility in the city of Buenos Aires, Argentina, and Latin America. Pursuant to the agreement, Licensee agreed to pay us a royalty fee equal to 10% of gross revenues of Licensee's business, net of any value added tax. No club has opened as of this time, but plans are for the location to open for business by the end of the

second quarter of 2008.

7. Subsequent to the end of the fiscal year, on November 30, 2007, we entered into a Stock Purchase Agreement for the acquisition of 100% of the issued and outstanding common stock of Stellar Management Corporation, a Florida corporation (the "Stellar Stock") and 100% of the issued and outstanding common stock of Miami Gardens Square One, Inc., a Florida corporation (the "MGSO Stock") which owns and operates an adult entertainment cabaret known as "Tootsie's Cabaret" ("Tootsie's") located at 150 NW 183rd Street, Miami Gardens, Florida 33169 (the "Transaction"). Pursuant to the Stock Purchase Agreement, we acquired the Stellar Stock and the MGSO Stock from Norman Hickmore ("Hickmore") and Richard Stanton ("Stanton") for a total purchase price of \$25,000,000 payable \$15,000,000 in cash and payable \$10,000,000 pursuant to two Secured Promissory Notes in the amount of \$5,000,000 each to Stanton and Hickmore (the "Notes"). The Notes will bear interest at the rate of 14% per annum with the principal payable in one lump sum payment on November 30, 2010. Interest on the Notes will be payable monthly, in arrears, with the first payment being due thirty (30) days after the closing of the Transaction. We cannot pre-pay the Notes during the first twelve (12) months; thereafter, we may prepay the Notes, in whole or in part, provided that (i) any prepayment by us from December 1, 2008 through November 30, 2009, shall be paid at a rate of 110% of the original principal amount and (ii) any prepayment by the Company after November 30, 2009, may be prepaid without penalty at a rate of 100% of the original principal amount. The Notes are secured by the Stellar Stock and MGSO Stock under a Pledge and Security Agreement.

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Additionally, as part of the Transaction, we entered into Assignment to Lease Agreements with the landlord for the property where Tootsie's is located. The underlying Lease Agreements for the property provide for an original lease term through June 30, 2014, with two option periods which give us the right to lease the property through June 30, 2034. The terms and conditions of the transaction were the result of extensive arm's length negotiations between the parties.

BUSINESS ACTIVITIES--INTERNET ADULT ENTERTAINMENT WEB SITES

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

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

BUSINESS ACTIVITIES--INTERNET ADULT AUCTION WEB SITES

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

TRANSACTION WITH VOICE MEDIA

In May 2002, we purchased 700,000 shares of our own common stock from Voice Media, Inc. for an aggregate price of \$918,700 (or \$795,302 adjusted for imputed interest) that equals approximately \$1.32 per share. That purchase price was below market value on the date of the purchase. Voice Media, Inc. presently owns none of our shares of common stock. These shares are presently held as treasury shares. We may cancel these shares at a later date. The control person of Voice Media, Inc. is Ron Levi, who was a Director until June 2002. We believe the transaction was favorable to us in view of the market value of our common stock and the payment terms, although no appraisal or fairness opinion was done. All management contracts previously signed relating to the management of xxxPassword.com will remain in effect. Pursuant to the transaction, the purchase price was to be paid in four annual installments. We paid off this note in full during fiscal year 2006.

TRANSACTION WITH TAURUS ENTERTAINMENT

On June 12, 2003, we entered into an Asset Purchase Agreement with Taurus Entertainment Companies, Inc. ("Taurus"), whereby we acquired all the assets and liabilities of Taurus in exchange for 3,752,008 shares of Taurus out of the 4,002,008 that we owned plus \$20,000 in cash. We also executed an Indemnification and Transaction Fee Agreement with Taurus for which we received \$270,000 in cash, with \$140,000 payable at closing, \$60,000 due on July 15, 2003 and \$70,000 due on August 15, 2003. We have received the \$60,000 payment and have restructured the remaining balance originally due August 15, 2003, with a note receivable bearing 12% annual interest over a five year term. The note was collateralized by 3,000,000 shares of Taurus, now known as Bluestar Health, Inc. ("Bluestar"). We foreclosed on the collateralized shares in August 2006. As such, we presently own the shares and have the ability to sell them in the open market. As of September 30, 2007, the value of the shares totals approximately \$450,000. As the amount due has been fully collateralized since the note receivable agreement was entered and we believe such collateral will fully satisfy such amount due, no allowance has been provided nor is deemed necessary as of September 30, 2007 and 2006. We intend to achieve collectibility either through repurchase of the shares by Bluestar Health, Inc. or by selling the shares in the open market or in a private transaction.

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COMPETITION

The adult topless club entertainment business is highly competitive with respect to price, service and location. All of our nightclubs compete with a number of locally owned adult clubs, some of whose names may have name recognition that equals that of Rick's Cabaret or XTC. While there may be restrictions on the location of a so-called "sexually oriented business", there are no barriers to entry into the adult cabaret entertainment market. For example, there are approximately 50 adult nightclubs located in the Houston area, all of which are in direct competition with our Houston cabarets. In Minneapolis, Rick's Cabaret is favorably located downtown and is a short walk from the Metrodome Stadium and the Target Center. There are two adult nightclubs in Minneapolis in direct competition with us. In Charlotte, there are two main competitors. We are centrally located with easy access to our location from the airport and the sports stadium. There are approximately 16 adult clubs in Manhattan of which seven compete with Rick's. Only one of those competitors is located in Midtown. Rick's location is one block from the Empire State Building and one block from Madison Square Garden. Amtrak and local commuter trains have station stops within one block of Rick's location at Penn Station and we are located just nine blocks from Times Square. There are seven adult clubs in Austin and nine in San Antonio that are in direct competition with our clubs. Our Rick's Austin is located at Springdale in between Highway 290 and the new Highway 130 (Austin By-pass). We anticipate a significant increase in traffic when the construction on Highway 130 is completed. Our Rick's San Antonio is located at I-35 in the northern part of the city. In Fort Worth, Texas, there are approximately four competitors. In the Miami, Florida market, there are approximately 15 competitors.

The names "Rick's" and "Rick's Cabaret", "XTC Cabaret" and "Club Onyx" are proprietary. We believe that the combination of our existing brand name recognition and the distinctive entertainment environment that we have created will allow us to compete effectively in the industry and within the cities where we operate. The sexually oriented business industry is highly competitive with respect to price, service and location, as well as the professionalism of the entertainers. Although we believe that we are well positioned to compete successfully, there can be no assurance that we will be able to maintain our high level of name recognition and prestige within the marketplace.

GOVERNMENTAL REGULATIONS

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

In addition to various regulatory requirements affecting the sale of alcoholic beverages, in Houston, and in many other cities, the location of a topless cabaret is subject to restriction by city ordinance. Topless nightclubs in Houston, Texas are subject to "The Sexually Oriented Business Ordinance", which contains prohibitions on the location of an adult cabaret. The prohibitions deal generally with distance from schools, churches, and other sexually oriented businesses and contain restrictions based on the percentage of residences within the immediate vicinity of the sexually oriented business. The granting of a Sexually Oriented Business Permit is not subject to discretion; the Business Permit must

be granted if the proposed operation satisfies the requirements of the Ordinance. In all states where we operate, management believes we are in compliance with applicable city, county, state or other local laws governing the sale of alcohol and sexually oriented businesses. (See "Legal Proceedings" herein.)

TRADEMARKS

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

EMPLOYEES AND INDEPENDENT CONTRACTORS

As of September 30, 2007, we had approximately 696 employees, of which 116 are in management positions, including corporate and administrative and Internet operations and approximately 580 of which are engaged in entertainment, food and beverage service, including bartenders, waitresses, and entertainers. None of our employees are represented by a union. We consider our employee relations to be good. Additionally, as of September 30, 2007, we had independent contractor relationships with approximately 1,100 entertainers, who are self-employed and perform at our locations on a non-exclusive basis as independent contractors. Our entertainers in Minneapolis, Minnesota act as commissioned employees. We believe that the adult entertainment industry standard of treating entertainers as independent contractors provides us with safe harbor protection to preclude payroll tax assessment for prior years. We have prepared plans that we believe will protect our profitability in the event that the sexually oriented business industry is required in all states to convert entertainers who are now independent contractors into employees.

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SHARE REPURCHASES

As of September 30, 2007, we owned 908,530 treasury shares of our common stock that we acquired in open market purchases and from investors who originally acquired the shares from us in private transactions. At this time, we do not have any plan to use these shares to acquire any assets.

On September 16, 2003, our Board of Directors authorized us to repurchase up to \$500,000 worth of our common stock. No shares have been purchased under this program.

ITEM 2.

PROPERTIES

Our principal executive office is located at 10959 Cutten Road, Houston, Texas 77066, which consists of a 9,000 square feet office/warehouse building. We purchased this property in December 2004 for \$512,739, payable with \$86,279 cash at closing and \$426,460 in a promissory note carrying 7% interest and a 15 year term. The monthly payment is \$3,834. As of September 30, 2007, the balance of the mortgage was \$377,627. The last mortgage payment is due in 2019. We believe that our offices are adequate for our present needs and that suitable space will be available to accommodate our future needs.

We own three locations of Rick's Cabaret (in Houston, San Antonio and Minneapolis), two Club Onyx locations in Houston, one "New Orleans Night" in Fort Worth, Texas, and two locations of XTC (in Austin and in San Antonio). In Houston, we own the property where a club known as "Iniquity" is located (previously "Club Encounters"), which is currently under lease to Iniquity LLC. We lease property for our XTC South (Houston), XTC North (Houston), Club Encounters (San Antonio), Rick's Cabaret-New York, Club Onyx Charlotte, Rick's Cabaret-Austin and Tootsie's (Miami Gardens, Florida) locations.

CLUB PROPERTIES WE OWN:

1. Club Onyx, located on Bering Drive in Houston, has an aggregate 12,300 square feet of space. In December 2004, we paid off the old mortgage and obtained a new one with an initial balance of \$1,270,000 and an interest rate of 10% per annum over a 10 year term. The money received from this new note was used to finance the acquisition of the New York club. As of September 30, 2007, the balance of the mortgage was \$1,208,957. During fiscal year 2007, we paid \$12,256 in monthly principal and interest payments. The monthly payment is calculated based on a 20 year amortization schedule. The last mortgage payment is due in 2015.
2. The Rick's Cabaret, located on North Belt Drive in Houston, has 12,000 square feet of space. In November 2004, we obtained a mortgage using this property as collateral. The principal balance of the new mortgage was \$1,042,000, with an annual interest rate of 10% over a 10 year term. The money received from this new note was used to finance the acquisition of the New York club. As of September 30, 2007, the balance of the mortgage was \$990,126. The monthly payment of principal and interest is \$10,056. The monthly payment is calculated based on a 20 year amortization schedule. The last mortgage payment is due in 2014.
3. The Rick's Cabaret located in Minneapolis has 15,400 square feet of space. The balance, as of September 30, 2007, that we owe on the mortgage is \$1,839,771 and the interest rate is 9%. We pay \$22,732 in monthly principal and interest payments. The last mortgage payment is due in 2009 with a balloon payment of \$1,794,432.
4. The XTC nightclub in Austin has 8,600 square feet of space, which sits on 1.2 acres of land. In August 2005, we restructured the mortgage by extending the term to 10 years. The balance of the mortgage that we owe as of

September 30, 2007 is \$217,891 with an interest rate of 11% and monthly principal and interest payments of \$3,445. In November 2004, we obtained an additional mortgage. The principal balance of the new mortgage was \$900,000, with an annual interest rate of 11% over a 10 year term. In June and July 2005, we obtained additional funds in the amount of \$200,000. In August 2005, we combined the additional funds into the \$900,000 mortgage. The money received from this new note was used to finance the acquisition and renovation of the New York club. The monthly principal and interest payment is \$15,034. As of September 30, 2007, the balance of the mortgage was \$950,817. The last payments for both mortgages are due in 2015.

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5. We own XTC nightclub in San Antonio, which has 7,800 square feet of space. In November 2004, we obtained a mortgage using this property as collateral. The principal balance of the new mortgage was \$590,000, with an annual interest rate of 10% over a 10 year term. The money received from this new note was used to finance the acquisition and renovation of the New York club. As of September 30, 2007, the balance of this mortgage was \$560,628. The monthly principal and interest payment is \$5,694. The last mortgage payment is due in 2014.
6. The San Antonio property where a club known as "Encounters" is located has 8,000 square feet of space. In December 2004, we paid off the mortgage we previously had. In November 2004, together with property in Austin, this property was used as additional collateral to secure the \$900,000 mortgage above. Beginning September 1, 2007, we began receiving a monthly lease payment in the amount of \$5,500 for this space.
7. Our subsidiary, Citation Land LLC, owns a 350-acre ranch in Brazoria County, Texas. During fiscal year 2006, we paid \$2,573 in monthly principal and interest payments. A balloon payment of \$287,920 was paid in March 2006.
8. Our subsidiary, Citation Land LLC, owned approximately 50 acres of raw land in Wise County, Texas. The balance as of September 30, 2006 that we owed on the Wise County raw land mortgage was \$139,157 with an interest rate of 12%. We paid \$1,537 in monthly principal and interest payments. On October 11, 2006, we sold these properties for \$165,000, which was the amount we had recorded for such properties at September 30, 2006, after recording a \$68,134 impairment charge at September 30, 2006. The proceeds were used to pay off the mortgage.
9. On April 5, 2006, our wholly owned subsidiary, RCI Holdings, Inc. completed the acquisition of real property located at 9009 Airport Blvd., Houston, Texas where we currently operate Club Onyx South (previously Hummers Sports Bar and XTC South clubs). Pursuant to the terms of the agreement, we paid a total sales price of \$1,300,000, which consisted of \$500,000 in cash and 160,000 shares of our restricted common stock.
10. On August 24, 2006, our subsidiary, RCI Holdings, Inc. acquired 100% of the interest in the improved real property upon which our Rick's-San Antonio is located. The total purchase price for the business and real property was \$2,900,000. Under terms of the agreement, the Company paid the owners of the club and property \$600,000 in cash at the time of closing and signed promissory notes for the remaining balance.
11. On April 23, 2007, in addition to the acquisition of 100% of the outstanding common stock of W.K.C., Inc., which owned and operated a cabaret known as 'New Orleans Night', RCI Holdings, Inc., our wholly owned subsidiary, entered into an Assignment of that certain Real Estate Sales Contract between the owner of the property and W.K.C., Inc. for the purchase of the real property located at 7101 Calmont, Fort Worth, Texas 76116 where New Orleans Nights is located for a total purchase price of \$2,500,000, which consisted of \$100,000 in cash and \$2,400,000 payable in a six year promissory note to the sellers which will accrue interest at the rate of 7.25% for the first two years, 8.25% for years three and four and 9.25% thereafter. The promissory note is secured by a Deed of Trust and Security Agreement. Further, RCI Holdings, Inc. entered into an Assignment and Assumption of Lease Agreement with the sellers to assume the lease agreement for the Real Property. We are currently renovating the second floor of the building and plan to change the name to Rick's once it is completed.

CLUB PROPERTIES WE LEASE:

1. We lease the property in Houston, Texas, where our XTC North is located. The lease term is for five years, beginning March 2004, with an additional five-year lease option thereafter. The monthly rent was \$8,000 until August 31, 2006, at which time the monthly base rent increased to \$9,000.
- 2.

We lease the property in New York City, New York, where our Rick's Cabaret NYC is located. We assumed the existing lease, which will terminate in April 2023. The monthly rent was \$41,469 until May 2007, at which time the monthly base rent increased to \$42,713. Under the term of the existing lease, the base rent will increase by approximately 3% each year.

3. We lease the property in Charlotte, North Carolina, where our Club Onyx Charlotte is located. We executed an amended lease in February 2007, which will terminate in February 2017. The monthly rent is \$17,500 until February 2010, at which time the monthly base rent will increase to \$18,500 until February 2013, at which time the rent will escalate to \$20,000 until February 2017.
4. We lease the property in South Houston, Texas, where our XTC South is located. The lease term is for seventy-nine months, beginning May 1, 2006. The monthly rent is \$3,000 for the first forty-three months and \$3,500 thereafter.
5. We lease the property in San Antonio, Texas, where our Club Encounters club is located. The lease term is for five years, beginning July 1, 2006, with monthly rent of \$5,000.

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6. We lease the property in Austin, Texas, where our Rick's Cabaret Austin is located. The lease term is for 10 years, beginning November 10, 2006, with monthly payments of \$29,000. We also have the option to renew for another ten years.
7. We lease the property in Miami Gardens, Florida, where Tootsie's is located with monthly rent of \$70,938. Under the Assignment of Lease, the original lease term continues through June 30, 2014, with two option periods which give us the right to lease the property through June 30, 2034.

ITEM 3.

LEGAL PROCEEDINGS

SEXUALLY ORIENTED BUSINESS ORDINANCE OF HOUSTON, TEXAS

In January 1997, the City Council of the City of Houston passed a comprehensive new Ordinance regulating the location of and the conduct within Sexually Oriented Businesses (the "Ordinance"). The Ordinance established new minimum distances that Sexually Oriented Businesses may be located from schools, churches, playgrounds and other sexually oriented businesses. There were no provisions in the Ordinance exempting previously permitted sexually oriented businesses from the effect of the new Ordinance.

The Ordinance provided that a business which was denied a renewal of its operating permit due to changes in distance requirements under the Ordinance would be entitled to continue in operation for a period of time (the "Amortization Period") if the owner were unable to recoup, by the effective date of the Ordinance, its investment in the business that was incurred through the date of the passage and approval of the Ordinance. Our nightclub in our south Houston location had a valid temporary permit/license. The permits for our north Houston location and our Bering Drive location have expired.

In May 1997, the City of Houston agreed to defer implementation of the Ordinance until the constitutionality of the entire Ordinance was decided by court trial. In February 1998, the U.S. District Court for the Southern District of Texas, Houston Division, struck down certain provisions of the Ordinance, including the provision mandating a 1,500 foot distance between a club and schools, churches and other sexually oriented businesses, leaving intact the provision of the 750 foot distance as it existed prior to the Ordinance. The City of Houston appealed the District Court's rulings with the Fifth Circuit Court of Appeals.

In November 2003, a three judge panel from the Fifth Circuit Court of Appeals published their Opinion which affirmed the Trial Court's ruling regarding lighting levels, customer and dancer separation distances and licensing of dancers and staff. The Court of Appeals, however, did not follow the Trial Court's ruling regarding the distance from which a club may be located from a church or school. The Court of Appeals held that a distance measurement of 1,500 feet would be upheld upon a showing by the City of Houston that its claims that there were alternative sites available for relocating clubs could be substantiated. The case was remanded for trial on the issues of the alternative sites.

The trial commenced on December 4, 2006 and concluded on December 12, 2006. The Trial Court rendered its judgment in favor of the City of Houston on January 31, 2007. The Trial Court found that the City of Houston met its burden that there were sufficient alternate sites available to relocate all of the existing businesses in 1997. The Trial Court found the 1997 ordinance constitutional and enforceable. Post-trial motions were heard and the relief sought, a stay against enforcement, was denied by the Trial Court. An appeal to the Fifth Circuit Court of Appeals was timely filed. The Fifth Circuit granted a stay pending appeal. Oral argument was held before the Fifth Circuit Court of Appeals on August 7, 2007. The Fifth Circuit Court of Appeals ruled in favor of the City of Houston in September 2007. Pleadings have been filed seeking a stay against enforcement of the provisions of the ordinance with the United

States Supreme Court in conjunction with the request that the United States Supreme Court hear an appeal of the Fifth Circuit Court of Appeals ruling. Neither relief nor any indication of the Supreme Court's position on the appeal has been received to date.

Additionally, we have filed on behalf of three of our club locations in Houston state court lawsuits seeking judicial review of the results of the amortization process contained within the Ordinance. This process was abated in 1998 due to the possible multiplicity of court actions. The final order by the Trial Court resulted in the termination of the abatement and allowed the amortization process to continue as provided in the Ordinance. We are presently in discussions with the City of Houston to attempt to resolve this matter. It is anticipated that further injunctive relief will be sought in the state court cases should it become necessary. In the event all efforts to stop enforcement activity fail and the City of Houston elects to enforce the judgment, we, as well as every other similarly situated sexually oriented business located within the incorporated area of Houston, Texas, will have to either cease providing nude or semi-nude entertainment or develop alternate methods of operating. In such event, we presently intend to clothe our entertainers in a manner to eliminate the need for licenses and to take such steps as to not be subject to SOB ordinance compliance. Approximately 23.7% of our club operation's revenues for the twelve months ended September 30, 2007 were in Houston, Texas. The ruling could have a material adverse impact on our operations, but it is unknown at this time.

OTHER LEGAL MATTERS

On October 6, 2006, a lawsuit was filed in the 224th Judicial District Court of Bexar County, Texas under Cause No. 2006-CI-15656 and styled Edward Jimenez, et al v. Rick's Cabaret International, Inc., et al. This is a wrongful death and personal injury cause of action against two individuals, based upon negligence theories, and against us, based upon an alleged "joint enterprise" theory and alleged "dram shop" violations, arising out of a two-vehicle collision on August 1, 2006. The collision occurred prior to our acquiring Spiros Partners Ltd. Spiros Partners Ltd. owns and operates our Rick's San Antonio. Plaintiffs include the parents - one of whom was driving - of the two juvenile decedents, one of the decedent's minor siblings and another minor child, both of whom were also passengers in the car that was struck by the allegedly intoxicated defendant driver. Plaintiffs are seeking unspecified damages for past and future physical pain and suffering, mental anguish, physical impairment, loss of companionship and consortium, funeral and medical expenses, property damages, and exemplary damages. Management has denied any liability for this accident and is vigorously defending the lawsuit, which is presently in the discovery process with a motion for summary judgment (based upon there being no evidence to support any claim or contention against us) to be filed at the conclusion of the current phase of discovery.

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On June 2, 2006, a lawsuit was filed in the 131st Judicial District Court of Bexar County, Texas under Cause No. 2006-CI-08592 and styled Richard P. Branson v. Spiros Partner, Ltd. d/b/a The Penthouse Club. This incident underlying this action occurred prior to our acquiring Spiros Partners Ltd. Spiros Partners Ltd. owns and operates our Rick's San Antonio. This was a fraud, assault, abuse of process, invasion of privacy and slander action based upon the plaintiff's allegation that the Club intentionally took advantage of and assaulted him while he was there on July 3, 2004, then subsequently was responsible for his malicious prosecution by the Bexar County District Attorney. Plaintiff sought unspecified damages for past and future physical pain and suffering, mental anguish, physical disability, financial injury and exemplary damages. Management does not believe it is liable for any of the damages. There was no insurance coverage for the acts complained of by the plaintiff. Management denied any liability for these allegations and vigorously defended the lawsuit. On December 13, 2006, our motion for summary judgment (based upon the plaintiff having no evidence to support any of his contentions) was granted in full. The plaintiff has appealed this judgment and we have responded. The case is pending before the 4th Court of Appeals in San Antonio, Texas.

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

We held our Annual Meeting of Shareholders on July 31, 2007. Eric S. Langan, Robert L. Watters, Steven L. Jenkins, Alan Bergstrom, Travis Reese and Luke Lirot were nominated and elected as Directors with the following vote results at the shareholder meeting:

	For	Withheld
Eric S. Langan	4,776,632	589,158
Robert L. Watters	4,651,546	714,244
Steven L. Jenkins	5,343,360	22,430
Alan Bergstrom	5,339,840	25,950
Travis Reese	4,775,517	590,273
Luke Lirot	5,337,590	28,200

At the Annual Meeting, the Shareholders ratified Whitley Penn LLP as the Company's Independent Registered Public Accounting Firm for the fiscal year ending September 30, 2007, with the following vote results:

5,325,363 Votes FOR Ratification
 23,160 Votes AGAINST Ratification
 17,466 Votes ABSTAINING

At the Annual Meeting, the Shareholders approved a Second Amendment to the Company's 1999 Stock Option Plan with the following vote results:

2,955,217 Votes FOR Ratification
 646,656 Votes AGAINST Ratification
 9,521 Votes ABSTAINING

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

4,381,773 Votes FOR Ratification
 775,921 Votes AGAINST Ratification

208,293 ABSTAINING

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

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PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

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

COMMON STOCK PRICE RANGE

	HIGH	LOW
Fiscal 2007		
First Quarter	\$ 8.88	\$ 5.27
Second Quarter	\$ 11.04	\$ 6.21
Third Quarter	\$ 9.75	\$ 8.26
Fourth Quarter	\$ 12.49	\$ 7.89
Fiscal 2006		
First Quarter	\$ 3.86	\$ 2.93
Second Quarter	\$ 6.20	\$ 3.76
Third Quarter	\$ 7.40	\$ 5.30
Fourth Quarter	\$ 7.97	\$ 6.08

On December 7, 2007, the last sales price for the common stock as reported on the NASDAQ Global Market was \$23.32. On December 7, 2007, there were approximately 3,512 stockholders of record of the common stock.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038.

DIVIDEND POLICY

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

On September 16, 2003, our board of directors authorized us to repurchase up to \$500,000 worth of our common stock. No shares have been purchased under this program.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth all equity compensation plans as of September 30, 2007:

Plan category	Number of securities to be	Weighted-average	Number of securities
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	issued upon exercise of outstanding options, warrants and rights (a)	exercise price of outstanding options, warrants and rights (b)	remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	545,000	\$3.61	438,000

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EMPLOYEE STOCK OPTION PLANS

While we have been successful in attracting and retaining qualified personnel, we believe that our future success will depend in part on our continued ability to attract and retain highly qualified personnel. We pay wages and salaries that we believe are competitive. We also believe that equity ownership is an important factor in our ability to attract and retain skilled personnel. We have adopted stock option plans (the "Plans") for employees and directors. The purpose of the Plans is to further our interests, our subsidiaries and our stockholders by providing incentives in the form of stock options to key employees and directors who contribute materially to our success and profitability. The grants recognize and reward outstanding individual performances and contributions and will give such persons a proprietary interest in us, thus enhancing their personal interest in our continued success and progress. The Plans also assist us and our subsidiaries in attracting and retaining key employees and directors. The Plans are administered by the Board of Directors. The Board of Directors has the exclusive power to select the participants in the Plans, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price equal to at least 85% of the fair market value of the common stock covered by the option on the grant date and to make all determinations necessary or advisable under the Plans.

In August 1999, we adopted the 1999 Stock Option Plan (the "1999 Plan") with 500,000 shares authorized to be granted and sold under the 1999 Plan. In August 2004, shareholders approved an Amendment to the 1999 Plan (the "Amendment") which increased the total number of shares authorized to 1,000,000. In July 2007, shareholders approved an Amendment to the 1999 Plan (the "Amendment") which increased the total number of shares authorized to 1,500,000. As of September 30, 2007, 545,000 stock options were outstanding under the 1999 Plan.

RECENT SALES OF UNREGISTERED SECURITIES

During the quarter ended September 30, 2007, we completed the following transactions in reliance upon exemptions from registration under the Securities Act of 1933, as amended (the "Act") as provided in Section 4(2) thereof. All certificates issued in connection with these transactions were endorsed with a restrictive legend confirming that the securities could not be resold without registration under the Act or an applicable exemption from the registration requirements of the Act. None of the transactions involved a public offering, underwriting discounts or sales commissions. We believe that each person was a "qualified" investor within the meaning of the Act and had knowledge and experience in financial and business matters, which allowed them to evaluate the merits and risks of our securities. Each person was knowledgeable about our operations and financial condition.

In August 2007, a holder of a convertible debenture converted \$125,576 of principal and interest owed into 26,437 shares of our restricted common stock.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our audited consolidated financial statements and the related notes to the financial statements included in this Form 10-KSB.

FORWARD LOOKING STATEMENT AND INFORMATION

We are including the following cautionary statement in this Form 10-KSB to make applicable and take advantage of the safe harbor provision of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by us or on behalf of us. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than

statements of historical facts. Certain statements in this Form 10-KSB are forward-looking statements. Words such as "expects," "believes," "anticipates," "may," and "estimates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties are set forth below. Our expectations, beliefs and projections are expressed in good faith and we believe that they have a reasonable basis, including without limitation, our examination of historical operating trends, data contained in our records and other data available from third parties. There can be no assurance that our expectations, beliefs or projections will result, be achieved, or be accomplished. In addition to other factors and matters discussed elsewhere in this Form 10-KSB, the following are important factors that in our view could cause material adverse affects on our financial condition and results of operations: the risks and uncertainties related to our future operational and financial results, the risks and uncertainties relating to our Internet operations, competitive factors, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, our dependence on key personnel, the ability to manage operations and the future operational strength of management, and the laws governing the operation of adult entertainment businesses. We have no obligation to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

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RISK FACTORS

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

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

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

As discussed in the section entitled “Legal Proceedings” herein, we are subject to litigation regarding our Sexually Oriented Business licenses in Houston, Texas. The Trial Court rendered its judgment in favor of the City of Houston on January 31, 2007. The Trial Court found that the City of Houston met its burden that there were sufficient alternate sites available to relocate all of the existing businesses in 1997. The Trial Court found the 1997 ordinance constitutional and enforceable. Post-trial motions were heard and the relief sought, a stay against enforcement, was denied by the Trial Court. An appeal to the Fifth Circuit Court of Appeals was timely filed. The Fifth Circuit granted a stay pending appeal. Oral argument was held before the Fifth Circuit Court of Appeals on August 7, 2007. The Fifth Circuit Court of Appeals ruled in favor of the City of Houston in September, 2007. Pleadings have been filed seeking a stay against enforcement of the provisions of the ordinance with the United States Supreme Court in conjunction with the request that the United States Supreme Court hear an appeal of the Fifth Circuit Court of Appeals ruling. Neither relief nor any indication of the Supreme Court’s position on the appeal has been received to date. The effect of any potential adverse ruling on our operations in Houston is unknown. An adverse ruling would affect all sexually oriented businesses in Houston. In that event, we would change our method of operations to require our entertainers to wear latex and bikini bottoms. While management believes this potential change will not have a meaningful effect on our operations, as the effect would be to all similarly situated businesses, the effect is unknown. Approximately 23.7% of our club operation’s revenues for the twelve months ended September 30, 2007 were in Houston, Texas. It is possible an adverse ruling may allow for additional competition in the Houston market.

In Texas, beginning January 1, 2008, our clubs will be subject to a new state law requiring a \$5 surcharge for every club visitor. A lawsuit has been filed by the Texas Entertainment Association, an organization to which we are a member, alleging the fee amounts to be an unconstitutional tax. The tax could discourage certain potential customers from visiting our clubs. Management is unaware of what impact, if any, the tax, if implemented, will have on our Texas operations.

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

If cash generated from our operations is insufficient to satisfy our working capital and capital expenditure requirements, we will need to raise additional funds through the public or private sale of our equity or debt securities. The timing and amount of our capital requirements will depend on a number of factors, including cash flow and cash requirements for nightclub acquisitions. If additional funds are raised through the issuance of equity or convertible

debt securities, the percentage ownership of our then-existing shareholders will be reduced. We cannot assure you that additional financing will be available on terms favorable to us, if at all. Any future equity financing, if available, may result in dilution to existing shareholders, and debt financing, if available, may include restrictive covenants. Any failure by us to procure timely additional financing will have material adverse consequences on our business operations

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

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

Risk of Adult Nightclubs Operations

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

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Permits Relating to the Sale of Alcohol

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

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

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

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

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

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, commencing in fiscal 2008, we must perform system and process evaluation and testing on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Subsequently in fiscal 2009, our independent registered public accounting firm will report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Uninsured Risks

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

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Limitations on Protection of Service Marks

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

Anti-takeover Effects of Issuance of Preferred Stock

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

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

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

Future Sales of Our Common Stock May Depress Our Stock Price

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

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

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

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

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

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

As of December 7, 2007, our Directors and executive officers and their respective affiliates collectively and beneficially owned approximately 17.33% of our outstanding common stock, including all warrants exercisable within 60 days. This concentration of voting control gives our Directors and executive officers and their respective affiliates substantial influence over any matters which require a shareholder vote, including, without limitation, the election of Directors, even if their interests may conflict with those of other shareholders. It could also have the effect of delaying or preventing a change in control of or otherwise discouraging a potential acquirer from attempting to obtain control of us. This could have a material adverse effect on the market price of our common stock or prevent our shareholders from realizing a premium over the then prevailing market prices for their shares of common stock.

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We are Dependent on Key Personnel

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

Cumulative Voting is Not Available To Stockholders

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

Our Directors and Officers Have Limited Liability and Have Rights To Indemnification

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

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

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

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

GENERAL INFORMATION

We operate in two 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. We own and operate nine adult nightclubs under the name "Rick's Cabaret" and "XTC" in Houston, Austin, San Antonio, Texas, Minneapolis, Minnesota, and New York, New York, and a "New Orleans Night" in Fort Worth, Texas. We also own and operate three upscale venues that cater especially to urban professionals, businessmen and professional athletes called "Club Onyx" in Houston, Texas, and Charlotte, North Carolina. We recently acquired "Tootsie's" in Miami Gardens, Florida. Additionally, we also own and operate a club known as "Encounters" in San Antonio, Texas. No sexual contact is permitted at any of our locations.

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2. We have extensive Internet activities.
- a) We currently own two adult Internet membership Web sites at www.CoupleTouch.com and www.xxxpassword.com. We acquire xxxpassword.com site content from wholesalers.
- b) We operate an online auction site www.NaughtyBids.com. This site provides our customers with the opportunity to purchase adult products and services in an auction format. We earn revenues by charging fees for each transaction conducted on the automated site.

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

Beginning in fiscal 2002 and continuing through fiscal 2007, we greatly reduced our usage of promotional pricing for membership fees for our adult entertainment web sites. This reduced our revenues from these web sites.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Estimates and assumptions are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and assumptions may vary under different assumptions or conditions. We evaluate our estimates and assumptions on an ongoing basis. We believe the accounting policies below are critical in the portrayal of our financial condition and results of operations.

Accounts and Notes Receivable

Trade accounts receivable is primarily comprised of credit card charges, which are generally converted to cash in two to five days after a purchase is made. 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. The \$70,000 due from Taurus Entertainment as of September 30, 2007 and 2006 was collateralized by 3,000,000 shares of Taurus Entertainment (now known as "Bluestar Health, Inc."). The Company foreclosed on the collateralized shares in August 2006. As such, the Company presently owns the shares and has the ability to sell them in the open market. As of September 30, 2007, the value of the shares totals approximately \$450,000. As the amount due has been fully collateralized since the note receivable agreement was entered and the Company believes such collateral will fully satisfy such amount due, no allowance has been provided nor is deemed necessary as of September 30, 2007 and 2006. The Company intends to achieve collectibility either through repurchase of the shares by Bluestar Health, Inc. or by selling the shares in the open market or in a private transaction. In December 2006, the Company foreclosed on a residential house due to non-payment of a note receivable from an unrelated third party. The balance of the note receivable was \$ 55,175. In June 2007, the Company foreclosed on the account and note receivable in the aggregate amount of approximately \$240,000. The net result of the transaction was that the Company wrote off the note and accounts and the related deferred gain and recorded \$53,000 in furniture and equipment in the foreclosure.

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.

Marketable Securities

Marketable securities at September 30, 2007 and 2006 consist of common stock. Statement of Financial Accounting Standards (“SFAS”) No. 115, Accounting for Certain 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 September 30, 2007 and 2006, the Company’s marketable securities were classified as available-for-sale, which are carried at fair value, with unrealized gains and losses reported as other comprehensive income within the stockholders’ equity section of the accompanying consolidated balance sheets. The cost of marketable equity securities sold is determined on a specific identification basis. The fair value of marketable equity securities is based on quoted market prices. There has been a realized gain of \$11,123 and \$0 related to marketable securities for the years ended September 30, 2007 and 2006, respectively. Marketable securities held at September 30, 2007 and 2006 have a cost basis of approximately \$13,000.

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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 31 to 40 years. Furniture, equipment and leasehold improvements have estimated useful lives between five and ten 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 operations of the respective period.

Goodwill and Intangible Assets

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangibles Assets, which addresses the accounting for goodwill and other intangible assets. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed on an annual basis for impairment. The Company adopted SFAS No. 142 effective October 1, 2001. The Company's annual evaluation was performed as of September 30, 2007, 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. The Company determined that there is no goodwill impairment at September 30, 2007 and that the goodwill related to the acquisition of Bobby's Novelty, Inc. was impaired at September 30, 2006 and charged \$79,841 against operating expenses. All of the Company's goodwill and intangible assets relate to the nightclub 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.

Revenue Recognition

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

The Company recognizes revenue for VIP memberships in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, by deferring membership revenue and recognizing over the estimated membership usage period. Management estimates that the weighted average useful lives for memberships are 12 and 24 months for annual and lifetime memberships, respectively. The Company does not track membership usage by type of membership, however it believes these lives are appropriate and conservative, based on management's knowledge of its client base and membership usage at the clubs.

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.

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 operations.

Income Taxes

Deferred income taxes are determined using the liability method in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

Stock Options

Effective October 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, "Share-Based Payments," using the modified prospective application method. Under this transition method, compensation cost recognized for the year ended September 30, 2007, includes the applicable amounts of: (a) compensation of all stock-based payments granted prior to, but not yet vested as of October 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in pro forma footnote disclosures), and (b) compensation cost for all stock-based payments granted subsequent to October 1, 2006 based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123R. Results for periods prior to October 1, 2006, have not been restated. The compensation cost recognized for the year ended September 30, 2007 was \$196,871, as a result of implementing SFAS No. 123R. There were 252,500 stock option exercises for the year ended September 30, 2007.

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The following presents pro forma net income and per share data for the year ended September 30, 2006 as if a fair value accounting method had been used to account for stock-based compensation:

Net income, as reported	\$ 1,752,714
Less total stock-based employee compensation expense determined under the fair value based method for all awards	(611,408)
Pro forma net income	\$ 1,141,306
Earnings per share:	
Basic - as reported	\$ 0.38
Diluted - as reported	\$ 0.35
Basic - pro forma	\$ 0.25
Diluted - pro forma	\$ 0.23

Impact of Recently Issued Accounting Standards

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of October 1, 2007, as required. The cumulative effect of adopting FIN 48 will be recorded in retained earnings and other accounts as applicable. The Company believes that the adoption of FIN 48 will not have an effect on the Company's consolidated financial position, results of operations or cash flows.

RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007 AS COMPARED TO THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

For the fiscal year ended September 30, 2007, we had consolidated total revenues of \$32,013,940, compared to consolidated total revenues of \$24,487,215 for the year ended September 30, 2006. This was an increase of \$7,526,725 or 30.74%. The increase in total revenues was primarily due to revenues generated in our new clubs and increases in revenues from our existing clubs, especially from our New York location. Revenues from nightclub operations for same-location same-period increased by 11.80% and for Internet businesses decreased by 9.08%.

Our income before minority interest for the year ended September 30, 2007 was \$2,863,501 compared to \$1,721,377 for the year ended September 30, 2006. The increase in income from operations was primarily due to the increase in revenues from our existing clubs and from our New York and Fort Worth locations. Our income from nightclub operations (excluding corporate overhead) was \$6,643,197 for the year ended September 30, 2007 compared with \$5,321,937 for the year ended September 30, 2006. Our income from operations for our Internet businesses (excluding corporate overhead) was \$111,919 for the year ended September 30, 2007 compared with \$130,512 for the year ended September 30, 2006. Our income from operations for our nightclub operations for the same-location-same-period increased by 55.38%. Our income for our Internet operations for the same-web-site-same-period decreased by 53.80%.

Our cost of goods sold for the year ended September 30, 2007 was 12.61% of total revenues compared to 11.91% of related revenues for the year ended September 30, 2006. The increase was due primarily to the acquisitions of Rick's clubs which have higher cost of goods sold and internet operations. Our cost of goods sold for the nightclub

operations for the year ended September 30, 2007 was 12.75% of our total revenues from club operations compared to 12.17% for the year ended September 30, 2006. Cost of goods sold for same-location-same-period decreased to 10.78% for the year ended September 30, 2007 compared to 12.24% for the year ended September 30, 2006. We continued our efforts to achieve reductions in cost of goods sold of the club operations through improved inventory management. We are continuing a program to improve margins from liquor and food sales and food service efficiency. Our cost of sales from our Internet operations for the year ended September 30, 2007 was 6.63% compared to 4.10% of related revenues for the year ended September 30, 2006.

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Our payroll and related costs for the year ended September 30, 2007 were \$8,936,730 compared to \$7,081,660 for the year ended September 30, 2006. The increase was primarily due to the increase in payroll in our opening new clubs. Our payroll for our nightclub operations for same-location-same-period increased by 2.17%. The increase was primarily due to increases in payroll in our clubs due to increases in revenues. Our payroll for Internet operations increased by 6.89%. We believe that our labor and management staff levels are at appropriate levels.

Our other general and administrative expenses for the year ended September 30, 2007 were \$14,938,002 compared to \$11,498,862 for the year ended September 30, 2006. The increase was primarily due to the increase in taxes & permits, rent, legal & professional, utilities, insurance, and advertising & marketing expenses from opening new locations, from our existing clubs, and from our New York location as it had its second full year of operations. Other selling, general and administrative expenses for same-location-same-period for the nightclub operations increased by 2.68%. The increase was primarily due to the increase in taxes & permits, rent, legal & professional, utilities, insurance, and advertising & marketing expenses. Other selling, general and administrative expenses for Internet operations decreased by 13.48%.

Our interest expense for the year ended September 30, 2007 was \$1,335,713 compared to \$1,057,020 for the year ended September 30, 2006. The increase was primarily due to the increase in debt in relation to the purchase of new clubs. We have increased our long term debt to \$14,387,337 as of September 30, 2007 compared to debt of \$13,920,733 as of September 30, 2006.

Our net income was \$3,054,899 for the fiscal year ended September 30, 2007 compared to \$1,752,714. The increase in our net income was primarily a result of the factors discussed in the paragraphs above.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2007, we had a deficit in working capital of \$1,030,472 compared to \$2,264,101 as of September 30, 2006. Because of the large volume of cash we handle, stringent cash controls have been implemented. The decrease was primarily due to increases in cash and cash equivalents and accounts receivable, offset by increases in accrued expenses and current portion of long-term debt. At September 30, 2007, our cash and cash equivalents were \$2,998,758 compared to \$854,932 at September 30, 2006.

Our depreciation for the year ended September 30, 2007 was \$1,438,158 compared to \$1,001,513 for the year ended September 30, 2006. Our amortization for the year ended September 30, 2007 was \$158,492 compared to \$47,734 for the period ended September 30, 2006.

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

	Years ended September 30,	
	2007	2006
Net cash provided by operating activities	\$ 4,383,121	\$ 2,725,770
Net cash used in investing activities	(6,791,794)	(3,110,840)
Net cash provided by financing activities	4,552,499	759,672
Net increase in cash and cash equivalent	\$ 2,143,826	\$ 374,602

The increase in cash provided by operating activities was primarily due to the increase in net income. The increase in cash used in investing activities and cash provided by financing activities relates primarily to acquisitions of businesses.

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

Debt Financing:

In January 2006, we paid off our borrowing with Voice Media.

On February 6, 2006, we issued a Convertible Debenture (the "Debenture") to an unrelated investment group for the principal sum of \$1,000,950 bearing interest at the rate of 10% per annum, with a maturity date of February 1, 2009. Under the terms of the Debenture, we are required to make three quarterly interest payments beginning May 1, 2006. Thereafter, we are required to make nine equal quarterly principal and interest payments. At any time after 366 days from the date of issuance of this Debenture, we have the right to redeem the Debenture in whole or in part during the term of the Debenture. At the election of the holder, the holder has the right at any time to convert all or any portion of the principal or interest amount of the Debenture into shares of our common stock at a rate of \$4.75 per share, which approximates the closing price of our stock on February 6, 2006. The proceeds of the Debenture was used to payoff certain debt and increase working capital. As of September 30, 2007, the holder had elected to convert \$309,261 of principal and \$92,491 of interest into 84,579 shares of restricted common stock. Subsequent to the end of fiscal year, in November 2007, the holder elected to convert all remaining principal (\$691,689) and accrued interest (\$21,448) to date into 150,134 shares of the Company's restricted common stock.

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In March 2006, we paid off our borrowing from an unrelated individual on the property in Brazoria County.

On August 24, 2006, our subsidiary, RCI Debit Services, Inc., acquired 99% of the ownership interest in an adult entertainment cabaret known as "Centerfolds" located at 5418 Brewster Street, San Antonio, Texas. Additionally, under the terms of the transaction, our subsidiary, RCI Holdings, Inc. acquired 100% of the interest in the improved real property upon which Centerfolds is located. The total purchase price for the business and real property was \$2,900,000. Under terms of the agreement, we paid the owners of the club and property \$600,000 in cash at the time of closing and signed promissory notes for the remaining balance. In addition, certain members of the current ownership structure entered a five-year covenant not to compete with us.

On April 23, 2007, RCI Holdings, Inc., our wholly owned subsidiary, entered into an Assignment of that certain Real Estate Sales Contract between the owner of the property and W.K.C., Inc. for the purchase of the real property located at 7101 Calmont, Fort Worth, Texas 76116 where New Orleans Nights is located for a total purchase price of \$2,500,000, which consisted of \$100,000 in cash and \$2,400,000 payable in a six year promissory note to the sellers which will accrue interest at the rate of 7.25% for the first two years, 8.25% for years three and four and 9.25% thereafter. The promissory note is secured by a Deed of Trust and Security Agreement. Further, RCI Holdings, Inc. entered into an Assignment and Assumption of Lease Agreement with the sellers to assume the lease agreement for the Real Property.

Subsequent to our fiscal year end, on October 12, 2007, we borrowed \$1,000,000 from an investment company under terms of a 10% convertible debenture. Interest only is payable quarterly until the principal plus accrued interest is due in nine equal quarterly payments beginning in October 2008. The debenture is subject to optional redemption at any time after 366 days from the date of issuance at 100% of the principal face amount plus accrued interest. The debenture plus any outstanding convertible interest is convertible by the holder into shares of our common stock at any time prior to the maturity date at the conversion price of \$12 per share.

Financing from related parties:

On June 17, 2005, we borrowed \$160,000 from a shareholder at an annual interest rate of 12% over a 3 year term.

On July 22, 2005, we entered into a secured convertible debenture with a greater than 10% shareholder for a principal sum of \$660,000, which includes the loan on June 17, 2005, in the amount of \$160,000. The term is for three years and the interest rate is 12% per annum. The debenture is convertible until August 1, 2008. The debenture matures on August 1, 2009 and bears interest at a rate of 12% per annum. The debentures provide, absent shareholder approval, that the number of shares of the Company's common stock that may be issued by the Company or acquired by the holders upon conversion of the debentures shall not exceed 19.99% of the total number of issued and outstanding shares of the Company's common stock. We also issued 50,000 warrants at \$3.00 per share in relation to this debenture. The debenture is secured by our ownership in Citation Land, LLC and RCI Holdings, Inc., both of which are wholly owned subsidiaries.

On April 28, 2006, we entered into convertible debentures with three shareholders, one of which is a greater than 10% shareholder, for a principal sum of \$825,000. The debentures mature April 30, 2009 and bear interest at a rate of 12% per annum. At the election of the holders, the holders have the right to convert (subject to certain limitations) until April 30, 2008, all or any portion of the principal amount of the debentures into shares of our common stock at a rate of \$6.55 per share, which approximates the closing price of our stock on April 28, 2006. The debentures provide, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by the holders upon conversion of the debentures shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock. \$600,000 of the debentures is secured by our property located at 9009 Airport Blvd., Houston, Texas. The proceeds of the debentures were used for the acquisition of Joint Ventures, Inc.

On November 9, 2006, we entered into convertible debentures with three shareholders for a principal sum of \$600,000. The term is for two years and the interest rate is 12% per annum. At the election of the holders, the holders have the right to convert (subject to certain limitations) all or any portion of the principal amount of the debentures into shares of our common stock at a rate of \$7.50 per share, which was higher than the closing price of our stock on November 9, 2006. The debentures provide, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by the holders upon conversion of the debentures shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock. The proceeds of the debentures were used for the acquisition of a 51% ownership interest of Playmates Gentlemen's Club LLC.

Contractual obligations and commitments:

We have long term contractual obligations primarily in the form of operating leases and debt obligations. The following table summarizes our contractual obligations and their aggregate maturities as well as future minimum rent payments:

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	Operating Lease	Debt(1)	Total
2008	\$ 1,280,914	\$ 3,291,154	\$ 4,572,068
2009	1,235,114	3,887,800	5,122,914
2010	1,218,882	886,589	2,105,471
2011	1,224,091	1,371,917	2,596,008
2012	1,196,103	591,800	1,787,903
Thereafter	9,847,060	4,358,079	14,205,139
	\$ 16,002,164	\$ 14,387,339	\$ 30,389,503

(1) The interest obligation on debt is not included.

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

The following table presents a summary of such indicators:

Years ended September 30,	2007	% increase	2006	% increase	2005
Sales of alcoholic beverage	\$ 12,111,348	37.92	\$ 8,781,635	61.69	\$ 5,431,049
Sales of food and merchandise	3,185,494	20.14	2,651,868	57.09	1,688,043
Service revenues	14,883,205	30.07	11,442,371	72.52	6,632,201
Internet revenues	730,629	(8.83)	801,395	1.74	787,617
Other	1,103,264	36.21	809,946	104.27	285,497
Total revenues	\$ 32,013,940	30.74	\$ 24,487,215	65.18	\$ 14,824,407
Net cash provided by operating activities	\$ 4,383,121		\$ 2,725,770		\$ 2,090,030
Net income (loss)	\$ 3,054,899		\$ 1,752,714		\$ (215,148)
Long-term debt	\$ 14,387,339		\$ 13,920,733		\$ 13,246,836

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

Share repurchase

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

IMPACT OF INFLATION

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

SEASONALITY

Our nightclub operations are affected by seasonal factors. Historically, we have experienced reduced revenues from April through September with the strongest operating results occurring during October through March. Our experience indicates that there are no seasonal fluctuations in our Internet activities.

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GROWTH STRATEGY

We believe that our nightclub operations can continue to grow organically and through careful entry into markets and demographic segments with high growth potential. Our growth strategy is: (a) to open new clubs after market analysis, (b) to acquire existing clubs in locations that are consistent with our growth and income targets and which appear receptive to the upscale club formula we have developed, as is the case with the acquisition of the New York club and clubs in Charlotte, South Houston, San Antonio, Austin and Miami, (c) to form joint ventures or partnerships to reduce start-up and operating costs, with us contributing equity in the form of our brand name and management expertise, (d) to develop new club concepts that are consistent with our management and marketing skills, and/or (e) to acquire real estate in connection with club operations, although some clubs may be in leased premises, and/or (f) to enter into licensing agreements in strategic locations, as is the case with the license agreement with Rick's Buenos Aires Sociedad Anonima in Argentina .

During fiscal 2007, we acquired two existing nightclub operations for a total cost of \$8,900,000. These acquisitions were funded primarily through indebtedness of \$2,400,000, issuance of our restricted common stock valued at \$6,379,250, and \$600,000 in cash. Part of the funds received from stock issuances will be used in cash flows and future acquisitions. These nightclub operations had total revenues of approximately \$3,075,000 and net loss of approximately \$245,000 for fiscal 2007.

During fiscal 2006, we acquired three existing nightclub operations for a total cost of \$3,865,000. These acquisitions were funded primarily through indebtedness of \$3,195,000, and \$670,000 cash. These nightclub operations had total revenues of approximately \$2,586,000 and \$370,000 and net loss of approximately \$836,000 and \$330,000 for fiscal 2007 and 2006, respectively.

During fiscal 2005, we acquired two existing nightclub operations for a total cost of \$8,775,000. These acquisitions were funded primarily through indebtedness of \$8,862,000, and issuance of our restricted common stock valued at \$675,000. Part of the indebtedness was used for renovation of the clubs. During fiscal 2006, \$1,925,000 of the indebtedness was converted into 350,000 shares of our restricted common stock. These nightclub operations had total revenues of approximately \$10,984,000, \$7,400,000 and \$1,100,000 during fiscal 2007, 2006 and 2005, respectively, and net income of approximately \$3,649,000 and \$635,000 during fiscal 2007 and 2006, respectively and net loss of approximately \$983,000 during fiscal 2005.

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 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 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 7.

FINANCIAL STATEMENTS

The information required by Item 7 is included in this report beginning on page 31.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with accountants on accounting and financial disclosure.

ITEM 8A. CONTROLS AND PROCEDURES

As of the end of the period of this report, our principal executive and principal financial officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic reports to the Securities and Exchange Commission. During the fourth fiscal quarter, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

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ITEM 8B.

OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

DIRECTORS AND EXECUTIVE OFFICERS

Our Directors are elected annually and hold office until the next annual meeting of our stockholders or until their successors are elected and qualified. Officers are elected annually and serve at the discretion of the Board of Directors. There is no family relationship between or among any of our directors and executive officers. Our Board of Directors consists of six persons. The following table sets forth our Directors and executive officers:

Name	Age	Position
Eric S. Langan	39	Director, Chairman, Chief Executive Officer, President
Phillip Marshall	58	Chief Financial Officer
Travis Reese	38	Director and V.P.-Director of Technology
Robert L. Watters	56	Director
Alan Bergstrom	62	Director
Steven Jenkins	50	Director
Luke Lirot	51	Director

Eric S. Langan has been a Director since 1998 and our President since March 1999. He has been involved in the adult entertainment business since 1989. From January 1997 through the present, he has held the position of President of XTC Cabaret, Inc. From November 1992 until January 1997, Mr. Langan was the President of Bathing Beauties, Inc. Since 1989, Mr. Langan has exercised managerial control over more than a dozen adult entertainment businesses. Through these activities, Mr. Langan has acquired the knowledge and skills necessary to successfully operate adult entertainment businesses.

Phillip Marshall was previously controller of Dorado Exploration, Inc., an oil and gas exploration and production company, from February 2007 to May 2007. He previously served as Chief Financial Officer of CDT Systems, Inc., a publicly held water technology company, from July 2003 to January 2007. In 1972, Mr. Marshall began his public accounting career with the international accounting firm, KMG Main Hurdman. After its merger with Peat Marwick, Mr. Marshall served as an audit partner at KPMG for several years. After leaving KPMG, Mr. Marshall was partner in charge of the audit practice at Jackson & Rhodes in Dallas from 1992 to 2003, where he specialized in small publicly held companies.

Robert L. Watters is our founder and has been our Director since 1986. Mr. Watters was our President and our Chief Executive Officer from 1991 until March 1999. Since 1999, Mr. Watters has owned and operated Rick's Cabaret, an adult entertainment club in New Orleans, Louisiana, which licenses our name. He was also a founder in 1989 and operator until 1993 of the Colorado Bar & Grill, an adult club located in Houston, Texas and in 1988 performed site selection, negotiated the property purchase and oversaw the design and permitting for the club that became the Cabaret Royale, in Dallas, Texas. Mr. Watters practiced law as a solicitor in London, England and is qualified to practice law in New York. Mr. Watters worked in the international tax group of the accounting firm of Touche, Ross

& Co. (now succeeded by Deloitte & Touche) from 1979 to 1983 and was engaged in the private practice of law in Houston, Texas from 1983 to 1986, when he became involved in our full-time management. Mr. Watters graduated from the London School of Economics and Political Science, University of London, in 1973 with a Bachelor of Laws (Honours) degree and in 1975 with a Master of Laws degree from Osgoode Hall Law School, York University.

Steven L. Jenkins has been a Director since June 2001. Since 1988, Mr. Jenkins has been a certified public accountant with Pringle Jenkins & Associates, P.C., located in Houston, Texas. Mr. Jenkins is the President and owner of Pringle Jenkins & Associates, P.C. Mr. Jenkins has a BBA Degree (1979) from Texas A&M University. Mr. Jenkins is a member of the AICPA and the TSCPA.

Alan Bergstrom became our Director in 1999. Since 1997, Mr. Bergstrom has been the Chief Operating Officer of Eagle Securities, which is an investment consulting firm. Mr. Bergstrom is also a registered stockbroker with Rhodes Securities, Inc. From 1991 until 1997, Mr. Bergstrom was a Vice President--Investments with Principal Financial Securities, Inc. Mr. Bergstrom holds a B.B.A. Degree in Finance, 1967, from the University of Texas.

Travis Reese became our Director and V.P.-Director of Technology in 1999. From 1997 through 1999, Mr. Reese had been a senior network administrator at St. Vincent's Hospital in Santa Fe, New Mexico. During 1997, Mr. Reese was a computer systems engineer with Deloitte & Touche. From 1995 until 1997, Mr. Reese was Vice President with Digital Publishing Resources, Inc., an Internet service provider. From 1994 until 1995, Mr. Reese was a pilot with Continental Airlines. From 1992 until 1994, Mr. Reese was a pilot with Hang On, Inc., an airline company. Mr. Reese has an Associate's Degree in Aeronautical Science from Texas State Technical College.

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Luke Lirot became a Director on July 31, 2007. Mr. Lirot received his law degree from the University of San Francisco in 1986. After serving as an intern in the San Francisco Public Defender's Office in 1986, Mr. Lirot returned to Florida and established a private law practice where he continues to practice and specializes in adult entertainment issues. He is a past President of the First Amendment Lawyers' Association and has actively participated in numerous state and federal legal matters. Mr. Lirot does not currently own any securities of the Company.

COMMITTEES OF THE BOARD OF DIRECTORS

We have an Audit Committee of independent directors whose members are Robert L. Watters, Alan Bergstrom, Steven Jenkins and Luke Lirot. In May 2000, our Board of Directors adopted a Charter for the Audit Committee. The Charter establishes the independence of our Audit Committee and sets forth the scope of our Audit Committee's duties. The purpose of our Audit Committee is to conduct continuing oversight of our financial affairs. Our Audit Committee conducts an ongoing review of our financial reports and other financial information prior to their being filed with the Securities and Exchange Commission, or otherwise provided to the public. Our Audit Committee also reviews our systems, methods and procedures of internal controls in the areas of: financial reporting, audits, treasury operations, corporate finance, managerial, financial and SEC accounting, compliance with law, and ethical conduct. Our Audit Committee is objective, and reviews and assesses the work of our independent registered public accounting firm.

All of our Audit Committee members are independent Directors. The Board of Directors elects the members of our Audit Committee annually. The members serve until their successors are duly elected and qualified. All members of the Audit Committee are free from any relationship that could conflict with member's independent judgment. All members are able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement. At least one member has past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background, including a current or past position as a chief executive or financial officer or other senior officer with financial oversight responsibilities. Steven L. Jenkins serves as Chairman of the Audit Committee, having been elected by the members of our Audit Committee. Steven L. Jenkins serves as the Audit Committee's Financial Expert, having been elected by a unanimous vote of the members of our Audit Committee. The Audit Committee Charter was previously filed as an exhibit to our Proxy Statement filed with the Securities and Exchange Commission on June 3, 2005, and can be found on our website at www.Ricks.com.

We have a Nominating Committee composed of independent directors Robert L. Watters, Alan Bergstrom, Steven L. Jenkins and Luke Lirot. In July 2004, the Board unanimously adopted a Charter with regard to the process to be used for identifying and evaluating nominees for director. The Charter establishes the independence of our Nominating Committee and sets forth the scope of the Nominating Committee's duties. The Nominating Committee Charter can be found on our website at www.Ricks.com.

We have a Compensation Committee whose members are Robert Watters, Alan Bergstrom, Steven L. Jenkins and Luke Lirot. Decisions concerning executive officer compensation for the fiscal year ended September 30, 2007, were made by the Compensation Committee. The primary purpose of the Compensation Committee is to evaluate and review the compensation of executive officers.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own beneficially more than ten percent of our common stock, to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Based solely on the reports we have received and on written representations from certain reporting persons, we believe that the directors, executive officers, and greater than ten

percent beneficial owners have complied with all applicable filing requirements during the fiscal year ending September 30, 2007.

CODE OF ETHICS

We have adopted a code of ethics for our Principal Executive and Senior Financial Officers, which was previously attached as Exhibit 14 to our Form 10-KSB for the fiscal year ending September 30, 2006.

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ITEM 10.

EXECUTIVE COMPENSATION

The following table reflects all forms of compensation for services to us for the fiscal years ended September 30, 2007 and 2006 of certain executive officers.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All other compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Eric S. Langan, President/CEO	2007	400,010	40,000	-0-	19,125 (1)	-0-	-0-	10,115	469,250
	2006	395,300	-0-	-0-	8,617 (2)	-0-	-0-	9,768	413,685
Phillip Marshall, CFO	2007	50,481	-0-	-0-	4,725 (5)	-0-	-0-	1,212	56,418
Travis Reese, VP/ Chief Technology Officer	2007	178,308	-0-	-0-	23,900 (3)	-0-	-0-	5,274	207,482
	2006	167,201	-0-	-0-	8,617 (4)	-0-	-0-	4,782	180,600

1 Mr. Langan received 5,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation.

2 Mr. Langan received 5,000 options to purchase shares of our common stock at an exercise price of \$6.75 as Director compensation.

3 Mr. Reese received 5,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation.

4 Mr. Reese received 5,000 options to purchase shares of our common stock at an exercise price of \$6.75 as Director compensation.

5 Mr. Marshall received 20,000 options to purchase shares of our common stock at an exercise price of \$9.40 as compensation.

Outstanding Equity Awards at Fiscal Year End

Name	Number of Securities Underlying Unexercised	OPTION AWARDS			STOCK AWARDS			
		Number of Securities Underlying Unexercised	Equity Incentive Plan Awards: Number of	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that have	Market Value of Shares or Units of Stock that have	Equity Incentive Plan Awards: Number of

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	Options (#) Exercisable	Options (#) Unexercisable	Securities Underlying Unexercised Options (#)			not Vested (#)	not Vested (\$)	Unearned Shares, Units or Other Rights that have not Vested (\$)	Payout Value of Unearned Shares, Units or Other Rights that have not Vested (\$)
(a)	(b)	(c)	(d)	(e)	(e)	(g)	(h)	(i)	(j)
Eric S. Langan	5,000	0	0	1.40	9/10/08	0	0	0	0
	75,000	0	0	2.20	2/6/09	0	0	0	0
	5,000	0	0	2.54	9/14/09	0	0	0	0
	200,000	0	0	2.49	9/14/09	0	0	0	0
	5,000	0	0	2.80	7/20/10	0	0	0	0
	5,000		0	6.75	5/31/11	0	0	0	0
		5,000	0	9.40	8/24/09	5,000	58,200	0	0
Phillip Marshall	0	20,000	0	9.40	8/24/12	20,000	232,800	0	0
Travis Reese	5,000	0	0	2.54	9/14/09	0	0	0	0
	50,000	0	0	2.49	9/14/09	0	0	0	0
	5,000	0	0	2.80	7/20/10	0	0	0	0
	5,000		0	6.75	5/31/11	0	0	0	0
		5,000	0	9.40	8/24/09	5,000	58,200	0	0

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DIRECTOR COMPENSATION

We do not currently pay any cash directors' fees, but we pay the expenses of our directors in attending board meetings. In August 2007, we issued 10,000 stock options to each Director who is a member of our Audit Committee and 5,000 options to our other Directors. These options become exercisable on August 24, 2008, have a strike price of \$9.40 per share and expire in August 2009.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Eric S. Langan	-0-	-0-	\$ 19,375 (1)	-0-	-0-	-0-	\$ 19,375
Travis Reese	-0-	-0-	\$ 24,150 (2)	-0-	-0-	-0-	\$ 24,150
Robert Watters	-0-	-0-	\$ 38,750 (3)	-0-	-0-	-0-	\$ 38,750
Alan Bergstrom	-0-	-0-	\$ 38,750 (4)	-0-	-0-	-0-	\$ 38,750
Steve Jenkins	-0-	-0-	\$ 38,750 (5)	-0-	-0-	-0-	\$ 38,750
Luke Lirot	-0-	-0-	\$ 4,283 (6)	-0-	-0-	-0-	\$ 4,283

1 On August 24, 2007, Mr. Langan received 5,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2008; these options will vest on August 24, 2008. Mr. Langan received 5,000 options in fiscal 2003, 280,000 in fiscal 2004, 5,000 in fiscal 2005, and 5,000 in fiscal 2006, for a total of 295,000 options outstanding as of September 30, 2007.

2 On August 24, 2007, Mr. Reese received 5,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2008; these options will vest on August 24, 2008. Mr. Reese received 5,000 options in fiscal 2003, 55,000 in fiscal 2004, 5,000 in fiscal 2005, and 5,000 in fiscal 2006, for a total of 75,000 options outstanding as of September 30, 2007.

3 On August 24, 2007, Mr. Watters received 10,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2008; these options will vest on August 24, 2008. Mr. Watters received 10,000 options for each of the fiscal years 2003, 2004, 2005, 2006, and had 40,000 options outstanding as of September 30, 2007.

4 On August 24, 2007, Mr. Bergstrom received 10,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2008; these options will vest on August 24, 2008. Mr. Bergstrom received 10,000 options for fiscal years 2003, 2004, 2005 and 2006 and had 20,000 options outstanding as of September 30, 2007.

5 On August 24, 2007, Mr. Jenkins received 10,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2008; these options will vest on August 24, 2008. Mr. Jenkins received 10,000 options for fiscal years 2003, 2004, 2005 and 2006 and had 10,000 options outstanding as of September 30, 2007.

6On August 24, 200, Mr. Lirot received 10,000 options to purchase shares of our common stock at an exercise price of \$9.40 as Director compensation for the fiscal year ending September 30, 2008; these options will vest on August 24, 2008.

EMPLOYMENT AGREEMENTS

We have a one-year employment agreement with Eric S. Langan (the "Langan Agreement"). The Langan Agreement extends through April 1, 2008 and provides for an annual base salary of \$400,000. The Langan Agreement also provides for participation in all benefit plans maintained by us for salaried employees. The Langan Agreement contains a confidentiality provision and an agreement by Mr. Langan not to compete with us upon the expiration of the Langan Agreement.

We also entered into a two year Employment Agreement with Phillip K. Marshall to serve as CFO (the "Marshall Agreement"). The Marshall Agreement extends through May 30, 2009, and provides for an annual base salary of \$175,000. Pursuant to the Marshall Agreement, Mr. Marshall is also eligible to participate in all benefit plans maintained by us for salaried employees. Under the terms of the Marshall Agreement, Mr. Marshall is bound to a confidentiality provision and cannot compete with us upon the expiration of the Marshall Agreement.

We also have a three-year employment agreement with Travis Reese (the "Reese Agreement"). The Reese Agreement extends through February 1, 2010, and provides for an annual base salary of \$192,500. The Reese Agreement also provides for participation in all benefit plans maintained by us for salaried employees. The Reese Agreement contains a confidentiality provision and an agreement by Mr. Reese not to compete with us upon the expiration of the Reese Agreement.

We have not established long-term incentive plans or defined benefit or actuarial plans.

Table of ContentsITEM SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND
11. RELATED STOCKHOLDER MATTERS

The following table sets forth certain information at December 7, 2007, with respect to the beneficial ownership of shares of Common Stock by (i) each person known to us who owns beneficially more than 5% of the outstanding shares of Common Stock, (ii) each of our directors, (iii) each of our executive officers and (iv) all of our executive officers and directors as a group. Unless otherwise indicated, each stockholder has sole voting and investment power with respect to the shares shown. As of December 7, 2007, there were 7,521,850 shares of common stock outstanding.

Name/Address	Number of shares	Title of class	Percent of Class (9)
Eric S. Langan 10959 Cutten Road Houston, Texas 77066	1,194,865 (1)	Common stock	15.3 %
Phillip K. Marshall 10959 Cutten Road Houston, Texas 77066	0	Common stock	0 %
Robert L. Watters 315 Bourbon Street New Orleans, Louisiana 70130	45,000 (2)	Common stock	0.6 %
Steven L. Jenkins 16815 Royal Crest Drive Suite 160 Houston, Texas 77058	10,000 (3)	Common stock	0.1 %
Travis Reese 10959 Cutten Road Houston, Texas 77066	74,775 (4)	Common stock	1.0 %
Alan Bergstrom 904 West Avenue, Suite 100 Austin, Texas 78701	24,700 (5)	Common stock	0.3 %
Luke Lirot 2240 Belleair Road, Suite 190 Clearwater, FL 33764	0	Common stock	0 %
All of our Directors and Officers as a Group of seven (7) persons	1,349,340 (6)	Common stock	17.3 %
E. S. Langan. L.P. 10959 Cutten Road Houston, Texas 77066	578,632 (1)	Common stock	7.7 %
JLF Asset Management/Jeff Feinberg 2775 Via D La Valle, Suite 204 Del Mar, CA 92014	993,479	Common stock	13.2 %

Estate of Ralph McElroy 1211 Choquette Austin, Texas, 78757	1,040,516 (7)	Common stock	14 %
Burlingame Asset Management/Blair Sanford One Market Street Suite 3750 San Francisco, CA 94105	464,757 (8)	Common stock	6.2 %

(1) Mr. Langan has sole voting and investment power for 321,233 shares that he owns directly. Mr. Langan has shared voting and investment power for 578,632 shares that he owns indirectly through E. S. Langan, L.P. Mr. Langan is the general partner of E. S. Langan, L.P. This amount also includes options to purchase up to 295,000 shares of common stock that are presently exercisable.

(2) Includes options to purchase up to 40,000 shares of common stock that are presently exercisable.

(3) Includes options to purchase up to 10,000 shares of common stock that are presently exercisable.

(4) Includes options to purchase up to 65,000 shares of common stock that are presently exercisable.

(5) Includes options to purchase up to 20,000 shares of common stock that are presently exercisable.

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(6) Includes options to purchase up to 430,000 shares of common stock that are presently exercisable.

(7) Includes 678,913 shares of common stock and 50,000 warrants to purchase shares of common stock that are presently exercisable at \$3.00 per share. This number also includes shares of our common stock underlying two convertible debentures totaling \$1,260,000 which are convertible at prices of \$3.00 (\$660,000) and \$6.55 (\$600,000), subject to adjustment under certain conditions. The terms of both debentures provide, absent shareholder approval, that the number of shares of our common stock that may be issued to or acquired by the Estate of Mr. McElroy upon conversion of any debenture shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock.

(8) Includes 298,686 shares of common stock held by Burlingame Equity Investors, LP, 40,540 shares of common stock held by Burlingame Equity Investors II, LP, and 155,331 shares of common stock held by Burlingame Equity Investors (Offshore) Ltd. Mr. Blair Sanford is the managing member of Burlingame Asset Management LLC, which is the general partner of Burlingame Equity Investors, LP, Burlingame Equity Investors II, LP, and Burlingame Equity Investors (Offshore) Ltd.

(9) These percentages exclude treasury shares in the calculation of percentage of class.

We are not aware of any arrangements that could result in a change of control.

The disclosure required by Item 201(d) of Regulation S-B is set forth in ITEM 5 herein.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our Board of Directors has adopted a policy that our business affairs will be conducted in all respects by standards applicable to publicly held corporations and that we will not enter into any future transactions and/or loans between us and our officers, directors and 5% shareholders unless the terms are no less favorable than could be obtained from independent, third parties and will be approved by a majority of our independent and disinterested directors. In our view, all of the transactions described below meet this standard.

In May 2002, we loaned \$100,000 to Eric Langan who is our Chief Executive Officer. The promissory note is unsecured, bears interest at 11% and is amortized over a period of ten years. The note contains a provision that in the event Mr. Langan leaves the Company for any reason, the note immediately becomes due and payable in full. The balance of the note was \$60,943 at September 30, 2007 and is included in other assets in our consolidated balance sheet. In November 2007, Mr. Langan paid the note in full.

On July 22, 2005, we issued a Secured Convertible Debenture to Ralph McElroy, a greater than 10% shareholder, for the principal sum of \$660,000. The debenture matures on August 1, 2009 and bears interest at a rate of 12% per annum. Under the terms of the Debenture, we were required to make monthly interest payments beginning September 1, 2005. We have the right to redeem the Debenture in whole or in part at any time during the term of the Debenture. The Estate of Mr. McElroy has the option to convert all or any portion of the principal amount of the Debenture into shares of our common stock at a rate of \$3.00 per share, subject to adjustment under certain conditions, until August 1, 2008. The Debenture provides, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by the Estate of Mr. McElroy upon conversion of the Debenture shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock. The Debenture is secured by certain of our assets. Additionally, we issued Mr. McElroy warrants to purchase 50,000 shares of our common stock at an exercise price of \$3.00 per share until July 22, 2008. The shares of Common Stock underlying the principal amount of the Debenture and the Warrants had piggyback registration rights and became registered with the SEC on

September 1, 2005. Mr. McElroy passed away in June 2007 and his estate is currently under settlement.

On April 28, 2006, we entered into convertible debentures with three shareholders, one of which is a greater than 10% shareholder, for a principal sum of \$825,000. The debentures mature April 30, 2009 and bear interest at a rate of 12% per annum. At the election of the holders, the holders have the right to convert (subject to certain limitations) until April 30, 2008, all or any portion of the principal amount of the debentures into shares of our common stock at a rate of \$6.55 per share, which approximates the closing price of our stock on April 28, 2006. The debentures provide, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by the holders upon conversion of the debentures shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock. The shares of Common Stock underlying the principal amount of the debentures had piggyback registration rights and were registered with the SEC in June 2006. The proceeds of the debentures were used for the acquisition Joint Ventures, Inc.

On November 9, 2006, we entered into convertible debentures with three shareholders for a principal sum of \$600,000. The term is for two years and the interest rate is 12% per annum. At the election of the holders, the holders have the right to convert (subject to certain limitations) all or any portion of the principal amount of the debentures into shares of our common stock at a rate of \$7.50 per share, which was higher than the closing price of our stock on November 9, 2006. The debentures provide, absent shareholder approval, that the number of shares of our common stock that may be issued by us or acquired by the holders upon conversion of the debentures shall not exceed 19.99% of the total number of issued and outstanding shares of our common stock. The proceeds of the debentures were used for the acquisition of a 51% ownership interest of Playmates Gentlemen's Club LLC.

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ITEM 13.

EXHIBITS

Exhibit 21 - Subsidiaries of the Registrant.

Exhibit 31.1 - Certification of Chief Executive Officer of Rick's Cabaret International, Inc. Corporation 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. Corporation 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. Corporation 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. Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63.

ITEM 14.

PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees paid or accrued for professional services rendered by Whitley Penn LLP for the audit of our annual financial statements for fiscal year 2007 and fiscal year 2006 and the aggregate fees paid or accrued for audit-related services and all other services rendered by Whitley Penn LLP for fiscal year 2007 and fiscal year 2006.

	2007	2006
Audit fees	\$ 170,208	\$ 97,768
Audit-related fees	13,070	16,210
Tax fees	30,170	3,850
All other fees	-	-
Total	\$ 213,448	\$ 117,828

The category of "Audit fees" includes fees for our annual audit, quarterly reviews and services rendered in connection with regulatory filings with the SEC, such as the issuance of comfort letters and consents.

The category of "Audit-related fees" includes employee benefit plan audits, internal control reviews and accounting consultation.

The category of "Tax fees" includes consultation related to corporate development activities.

All above audit services, audit-related services and tax services were pre-approved by the Audit Committee, which concluded that the provision of such services by Whitley Penn LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions. The Audit Committee's outside auditor independence policy provides for pre-approval of all services performed by the outside auditors.

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SIGNATURES

In accordance with the requirements of Section 13 of 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on December 19, 2007.

Rick's Cabaret International, Inc.

/s/ Eric S. Langan
 By: Eric S. Langan
 Director, Principal and Chief Executive Officer and
 President

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Eric S. Langan Eric S. Langan	Director, Principal and Chief Executive Officer, and President	December 19, 2007
/s/Phillip K. Marshall Phillip K. Marshall	Chief Financial Officer and Principal Accounting Officer	December 19, 2007
/s/ Travis Reese Travis Reese	Director and V.P.-Director of Technology	December 19, 2007
/s/ Robert L. Watters Robert L. Watters	Director	December 20, 2007
/s/ Alan Bergstrom Alan Bergstrom	Director	December 19, 2007
/s/ Steven Jenkins Steven Jenkins	Director	December 19, 2007
/s/ Luke Lirot Luke Lirot	Director	December 20, 2007

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RICK'S CABARET INTERNATIONAL, INC.
CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2007 and 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Rick's Cabaret International, Inc. as of September 30, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rick's Cabaret International, Inc. as of September 30, 2007 and 2006, and the consolidated results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Whitley Penn LLP
Dallas, Texas
December 19, 2007

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RICK'S CABARET INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	September 30,	
	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,998,758	\$ 854,932
Accounts receivable:		
Trade	557,295	192,385
Other, net	218,746	186,554
Marketable securities	33,368	22,245
Inventories	368,557	291,623
Prepaid expenses and other current assets	286,883	140,428
Total current assets	4,463,607	1,688,167
Property and equipment, net	21,365,415	17,423,843
Other assets:		
Goodwill and indefinite lived intangibles	20,179,610	10,505,452
Definite lived intangibles, net	698,584	525,076
Other	368,544	460,337
Total other assets	21,246,738	11,490,865
Total assets	\$ 47,075,760	\$ 30,602,875
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 493,499	\$ 554,979
Accrued liabilities	1,709,426	1,118,974
Current portion of long-term debt	3,291,154	2,278,315
Total current liabilities	5,494,079	3,952,268
Deferred tax liability	4,391,499	-
Other long-term liabilities	420,415	299,701
Long-term debt-related parties	2,085,000	1,386,909
Long-term debt	9,011,185	10,255,509
Total liabilities	21,402,178	15,894,387
Commitments and contingencies	-	-
Minority interest	180,728	-
Temporary equity - Common stock, subject to put rights (215,000 and 160,000 shares, respectively)	1,450,000	800,000
Permanent stockholders' equity:		

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Preferred stock, \$.10 par, 1,000,000 shares authorized, none outstanding	-	-
Common stock, \$.01 par, 15,000,000 shares authorized, 6,903,354 and 5,805,275 shares issued, respectively	69,034	58,053
Additional paid-in capital	22,643,596	15,586,233
Accumulated other comprehensive income	20,021	8,898
Retained earnings (accumulated deficit)	2,603,983	(450,916)
	25,336,634	15,202,268
Less 908,530 shares of common stock held in treasury, at cost	1,293,780	1,293,780
Total stockholders' equity	24,042,854	13,908,488
Total liabilities and stockholders' equity	\$ 47,075,760	\$ 30,602,875

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended September 30,	
	2007	2006
Revenues:		
Sales of alcoholic beverages	\$ 12,111,348	\$ 8,781,635
Sales of food and merchandise	3,185,494	2,651,868
Service revenues	14,883,205	11,442,371
Internet revenues	730,629	801,395
Other	1,103,264	809,946
Total revenues	32,013,940	24,487,215
Operating expenses:		
Cost of goods sold	4,035,522	2,915,312
Salaries and wages	8,739,859	7,081,660
Stock-based compensation	196,871	-
Other general and administrative:		
Taxes and permits	4,071,677	3,074,577
Charge card fees	638,248	485,342
Rent	1,494,005	1,150,338
Legal and professional	1,124,856	865,111
Advertising and marketing	1,325,367	1,176,277
Depreciation and amortization	1,596,650	1,049,247
Insurance	785,519	420,450
Utilities	800,366	621,051
Other	3,101,314	2,576,628
Goodwill impairment	-	79,841
Total operating expenses	27,910,254	21,495,834
Income from operations	4,103,686	2,991,381
Other income (expense):		
Interest income	58,394	25,796
Interest expense	(1,335,713)	(1,057,020)
Loss on sales of assets	-	(68,134)
Other	37,134	(170,646)
Income before minority interest	2,863,501	1,721,377
Minority interest	427,844	31,337
Income before income taxes	3,291,345	1,752,714
Income taxes	236,446	-
Net income	\$ 3,054,899	\$ 1,752,714

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Basic and diluted earnings per share:

Net income, basic	\$	0.54	\$	0.38
Net income, diluted	\$	0.50	\$	0.35
Weighted average number of common shares outstanding:				
Basic		5,700,548		4,640,499
Diluted		6,215,285		5,065,962

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN PERMANENT STOCKHOLDERS' EQUITY

Years Ended September 30, 2007 and 2006

	Common Stock		Accumulated Retained			Treasury Stock		Total Stockholders' Equity
	Number of Shares	Amount	Additional Paid-In Capital	Other Comprehensive Income	Earnings (Accumulated Deficit)	Number of Shares	Amount	
Balance at September 30, 2005	5,040,678	\$ 50,407	\$ 12,331,367	\$ 15,572	\$(2,203,630)	908,530	\$(1,293,780)	\$ 8,899,936
Shares issued	744,597	7,446	3,326,210	-	-	-	-	3,333,656
Beneficial conversion	-	-	53,856	-	-	-	-	53,856
Change in temporary equity - common stock subject to put rights	20,000	200	(125,200)	-	-	-	-	(125,000)
Net income	-	-	-	-	1,752,714	-	-	1,752,714
Change in available-for-sale securities	-	-	-	(6,674)	-	-	-	(6,674)
Comprehensive income	-	-	-	-	-	-	-	1,746,040
Balance at September 30, 2006	5,805,275	58,053	15,586,233	8,898	(450,916)	908,530	(1,293,780)	13,908,488
Shares issued	1,153,079	11,531	7,509,942	-	-	-	-	7,521,473
Change in temporary equity - common stock subject to put rights	(55,000)	(550)	(649,450)	-	-	-	-	(650,000)
Stock-based compensation	-	-	196,871	-	-	-	-	196,871
Net income	-	-	-	-	3,054,899	-	-	3,054,899
Change in available-for-sale securities	-	-	-	11,123	-	-	-	11,123
	-	-	-	-	-	-	-	3,066,022

Comprehensive
income

Balance at
September 30,

2007	6,903,354	\$ 69,034	\$ 22,643,596	\$ 20,021	\$ 2,603,983	908,530	\$ (1,293,780)	\$ 24,042,854
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See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 3,054,899	\$ 1,752,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,438,158	1,001,513
Amortization	158,492	47,734
Bad debts	26,777	-
Goodwill impairment	-	79,841
Beneficial conversion	17,952	20,944
Common stock issued for interest payment	87,336	47,962
Amortization of note discount	35,552	