

RICKS CABARET INTERNATIONAL INC
Form 10-Q
May 11, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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

Commission File Number: 001-13992

RICK'S CABARET INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of incorporation or organization)

76-0458229
(I.R.S. Employer Identification No.)

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

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

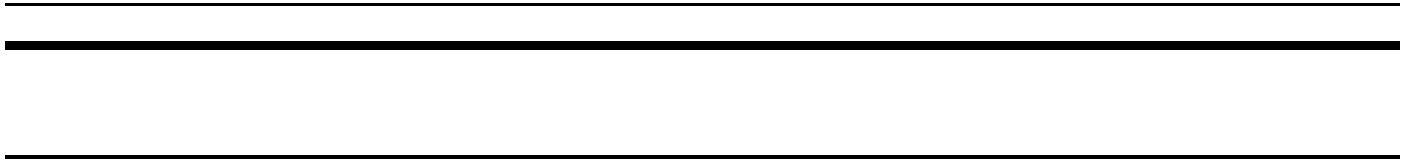
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such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

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

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

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

As of May 4, 2010, 10,212,867 shares of the Registrant's Common Stock were outstanding.



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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

ASSETS

	MARCH 31, 2010 (UNAUDITED)	SEPTEMBER 30, 2009
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,218,919	\$ 12,850,250
Accounts receivable		
Trade, net	836,274	776,721
Other, net	394,797	136,761
Marketable securities	1,121,993	-
Inventories	1,304,838	1,231,353
Prepaid expenses and other current assets	1,387,346	846,430
Assets of discontinued operations	189,380	210,032
Total current assets	17,453,547	16,051,547
PROPERTY AND EQUIPMENT:		
Buildings, land and leasehold improvements	48,226,361	46,577,101
Furniture and equipment	15,807,386	12,289,630
	64,033,747	58,866,731
Accumulated depreciation	(12,080,645)	(10,566,656)
Total property and equipment, net	51,953,102	48,300,075
OTHER ASSETS:		
Goodwill and indefinite lived intangibles	80,345,628	78,330,914
Definite lived intangibles, net	1,170,062	1,161,433
Other	1,414,289	1,232,330
Total other assets	82,929,979	80,724,677
Total assets	\$ 152,336,628	\$ 145,076,299

See accompanying notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 31, 2010 (UNAUDITED)	SEPTEMBER 30, 2009
CURRENT LIABILITIES:		
Accounts payable – trade	\$ 960,373	\$ 787,982
Accrued liabilities	2,813,531	2,413,988
Patron tax liability	2,571,925	1,162,960
Current portion of derivative liabilities, at fair value	915,000	885,600
Current portion of long-term debt	7,080,749	5,855,727
Liabilities of discontinued operations	39,951	51,799
Total current liabilities	14,381,529	11,158,056
Deferred tax liability	20,011,360	18,581,344
Other long-term liabilities	680,617	641,800
Long-term debt, less current portion	32,022,296	31,956,856
Derivative liabilities at fair value, long-term portion	1,760,960	2,455,992
Total liabilities	68,856,762	64,794,048
COMMITMENTS AND CONTINGENCIES		
TEMPORARY EQUITY – Common stock, subject to put rights (271,500 and 317,000 shares)	5,915,000	6,871,000
PERMANENT STOCKHOLDERS' EQUITY:		
Preferred stock, \$.10 par, 1,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.01 par, 20,000,000 shares authorized; 8,921,395 and 8,879,566 shares issued	89,214	88,796
Additional paid-in capital	54,846,125	54,530,319
Accumulated other comprehensive income	113,038	-
Retained earnings	19,200,100	15,472,747
Total Rick's permanent stockholders' equity	74,248,477	70,091,862
Noncontrolling interests	3,316,389	3,319,389
Total permanent stockholders' equity	77,564,866	73,411,251
Total liabilities and stockholders' equity	\$ 152,336,628	\$ 145,076,299

See accompanying notes to consolidated financial statements.

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

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2010 (UNAUDITED)	2009	2010 (UNAUDITED)	2009 (UNAUDITED)
Revenues:				
Sales of alcoholic beverages	\$9,028,930	\$6,965,973	\$17,078,395	\$13,599,544
Sales of food and merchandise	1,782,326	1,565,931	3,372,338	2,985,996
Service revenues	10,225,314	8,795,369	19,517,562	16,935,258
Internet revenues	143,730	164,631	289,167	341,394
Media revenues	310,727	285,331	567,483	468,967
Other	948,358	627,863	1,619,456	1,207,632
Total revenues	22,439,385	18,405,098	42,444,401	35,538,791
Operating expenses:				
Cost of goods sold	2,639,473	2,212,112	5,096,011	4,441,585
Salaries and wages	4,411,424	3,995,568	8,721,729	8,216,454
Stock compensation	44,037	20,044	88,074	40,088
Other general and administrative:				
Taxes and permits	3,334,371	2,395,423	6,169,934	4,714,723
Charge card fees	369,685	447,948	715,873	786,488
Rent	1,027,577	920,823	2,051,111	1,869,185
Legal and professional	759,463	810,513	1,409,072	1,314,562
Advertising and marketing	1,506,831	1,696,161	4,445,004	2,868,533
Insurance	259,279	267,128	521,131	506,365
Utilities	410,878	374,393	816,747	803,311
Impairment of nightclub assets	-	823,090	-	823,090
Depreciation and amortization	892,440	858,611	1,724,418	1,702,964
Other	1,630,487	1,301,984	3,176,510	2,712,028
Total operating expenses	17,285,945	16,123,798	34,935,614	30,799,376
Operating income	5,153,440	2,281,300	7,508,787	4,739,415
Other income (expense):				
Interest income	5,582	1,659	9,255	7,393
Interest expense	(1,079,498)	(808,831)	(2,108,080)	(1,642,302)
Other	(2,676)	169	(2,675)	(8,565)
Gain on change in fair value of derivative instruments	385,207	-	429,482	-
Income from continuing operations before income taxes	4,462,055	1,474,297	5,836,769	3,095,941
Income taxes	1,430,270	520,070	1,932,626	1,087,423
Income from continuing operations	3,031,785	954,227	3,904,143	2,008,518
Loss from discontinued operations, net of income taxes	(13,620)	(41,256)	(29,790)	(231,215)
Net income	3,018,165	912,971	3,874,353	1,777,303
Less: net income attributable to noncontrolling interests	(73,500)	(73,500)	(147,000)	(147,000)
	\$2,944,665	\$839,471	\$3,727,353	\$1,630,303

Net income attributable to Rick's Cabaret International,
Inc.

Basic earnings (loss) per share attributable to Rick's
shareholders:

Income from continuing operations	\$0.32	\$0.09	\$0.40	\$0.20
Loss from discontinued operations	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.02)
Net income	\$0.31	\$0.09	\$0.40	\$0.17

Diluted earnings (loss) per share attributable to Rick's
shareholders:

Income from continuing operations	\$0.31	\$0.09	\$0.40	\$0.20
Loss from discontinued operations	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.02)
Net income	\$0.30	\$0.09	\$0.40	\$0.17

Weighted average number of common shares
outstanding:

Basic	9,361,328	9,313,819	9,365,751	9,339,926
Diluted	10,283,512	9,487,528	9,394,131	9,543,741

Comprehensive income for the three months ended March 31, 2010 and 2009 was \$3,089,589 and \$839,471, and for the six months was \$3,840,391 and \$1,630,303, respectively. This includes the changes in available-for-sale securities and net income.

See accompanying notes to consolidated financial statements.

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

FOR THE SIX MONTHS
ENDED MARCH 31,
2010 2009
(UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$3,727,353	\$1,630,303
Loss from discontinued operations, net of income taxes	29,790	231,215
Income from continuing operations	3,757,143	1,861,518
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,724,418	1,702,964
Impairment of nightclub assets	-	823,090
Deferred taxes	1,398,947	476,453
Amortization of note discount	89,863	-
Beneficial conversion	11,389	11,389
Noncontrolling interests	147,000	147,000
Deferred rents	34,917	51,912
Gain on change in fair value of derivative instruments	(429,482)	-
Stock compensation expense	88,074	40,088
Other	-	13,347
Changes in operating assets and liabilities:		
Accounts receivable	(318,799)	(243,833)
Inventories	(73,485)	53,043
Prepaid expenses and other assets	(732,952)	(912,373)
Accounts payable and accrued liabilities	2,381,005	(1,072,435)
Cash provided by operating activities of continuing operations	8,078,038	2,952,163
Cash provided by (used in) operating activities of discontinued operations	(20,986)	72,873
Net cash provided by operating activities	8,057,052	3,025,036

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of marketable securities	(1,008,955)	-
Additions to property and equipment	(2,231,074)	(881,544)
Acquisition of businesses, net of cash acquired	(2,660,158)	(48,351)
Payments from notes receivable	1,210	4,079
Cash used in investing activities of continuing operations	(5,898,977)	(925,816)
Cash provided by investing activities of discontinued operations	-	2,402
Net cash used in investing activities	(5,898,977)	(923,414)

CASH FLOWS FROM FINANCING ACTIVITIES:

Purchase of put options and payments on derivative instrument	(785,935)	-
Payments on long-term debt	(1,309,406)	(1,546,597)
Purchase of treasury stock	(544,065)	(585,589)
Distribution to noncontrolling interests	(150,000)	(150,000)
Cash used in financing activities of continuing operations	(2,789,406)	(2,282,186)

NET DECREASE IN CASH	(631,331)	(180,564)
CASH AT BEGINNING OF PERIOD	12,850,250	5,504,066

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CASH AT END OF PERIOD	\$12,218,919	\$5,323,502
CASH PAID DURING PERIOD FOR:		
Interest	\$1,545,102	\$1,491,456
Income taxes	\$635,042	\$1,655,000

See accompanying notes to consolidated financial statements.

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Non-cash transactions:

In March 2009, the Company sold 100% of the common stock of Texas S&I which owned and operated the Encounters nightclub for \$40,000, including a note for \$35,000.

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

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

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q of Regulation S-X. They do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements for the year ended September 30, 2009 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-K. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the three and six months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending September 30, 2010.

In previous filings, the Company has recognized its Rick's Cabaret in Austin, Texas as a discontinued operation. That club was held for sale during a portion of 2009, but the Company has recently decided to renovate and reopen the club and relaunch it with a new concept in April 2010. Accordingly, the Austin club is recognized in continuing operations in the accompanying consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Fair Value of Financial Instruments

We calculate the fair value of our assets and liabilities which qualify as financial instruments and include this additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of short and long-term debt also approximates fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

3. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

On July 1, 2009, the Financial Accounting Standards Board ("FASB") issued FASB Statement of Financial Accounting Standards ("SFAS") No. 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which is included in FASB Accounting Standards Codification ("ASC") 105, Generally Accepted Accounting Principles. This new guidance approved the FASB ASC as the single source of authoritative nongovernmental GAAP. The FASB ASC is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the FASB ASC will be considered non-authoritative. The ASC is a restructuring of GAAP designed to simplify access to all authoritative literature by providing a topically organized structure. The adoption of FASB ASC did not impact the Company's financial condition or results of operations. Technical references to GAAP included in these notes to the Consolidated Financial Statements are provided under the new FASB ASC structure.

In December 2006, the FASB issued SFAS No. 157 (ASC 820), Fair Value Measurements. ASC 820 clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements, but does not change existing guidance as to whether or not an instrument is carried at fair value. For financial assets and liabilities, ASC 820 is effective for fiscal years beginning after November 15, 2007, which required the Company to adopt these provisions in fiscal 2009. For nonfinancial assets and liabilities, ASC 820 is effective for fiscal years beginning after November 15, 2008, which required the Company to adopt these provisions in fiscal 2010.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

3. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS – continued

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company's derivative liabilities have been measured principally utilizing Level 2 inputs and the marketable securities have been measured using Level 1 inputs.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (ASC 825). The fair value option permits entities to choose to measure eligible financial instruments at fair value at specified election dates. The entity will report unrealized gains and losses on the items on which it has elected the fair value option in earnings. The adoption of ASC 825 did not have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued Statement No. 141R, Business Combinations (ASC 805), and Statement No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, (ASC 810). ASC 805 modifies the accounting and disclosure requirements for business combinations and broadens the scope of the previous standard to apply to all transactions in which one entity obtains control over another business. ASC 810 establishes new accounting and reporting standards for non-controlling interests in subsidiaries. The Company was required to apply the provisions of the new standards in the first quarter of fiscal 2010. Early adoption was not permitted for these new standards. The adoption of these standards did not have a material impact on the accompanying consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133 (ASC 815). ASC 815 amends SFAS No. 133 and requires entities to enhance their disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

4. STOCK OPTIONS AND STOCK-BASED EMPLOYEE COMPENSATION

Employee and Director Stock Option Plans

In August 1999, the Company adopted the 1999 Stock Option Plan (“the Plan”). The options granted under the Plan may be either incentive stock options or non-qualified options. The Plan is administered by the Board of Directors or by a compensation committee of the Board of Directors. The Board of Directors has the exclusive power to select individuals to receive grants, to establish the terms of the options granted to each participant, provided that all options granted shall be granted at an exercise price equal to at least 85% of the fair market value of the common stock covered by the option on the grant date and to make all determinations necessary or advisable under the Plan. The options are subject to termination of employment and generally expire five years from the date of grant. Employee options generally vest in installments over two years. As of March 31, 2010, 378,000 shares of common stock were available for future grants under the Plan.

The compensation cost recognized for the six months ended March 31, 2010 and 2009 was \$88,074 and \$40,088, respectively. There were no stock options exercised for the six months ended March 31, 2010 and 2009, respectively. There were no stock options granted for the six month periods ended March 31, 2010 and 2009.

Stock Option Activity

Below is the summary of common stock options outstanding as of March 31, 2010:

Employee and Director Stock Option Plan:	Options Authorized	Options Outstanding	Options Vested	Available for Grant
1999 Stock Option Plan	1,500,000	120,000	60,000	378,000

The following is a summary of all stock option transactions for the six months ended March 31, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2009	120,000	\$7.53		
Granted	-	-		
Cancelled or expired	-	-		
Exercised	-	-		
Outstanding as of March 31, 2010	120,000	\$7.53	1.32	\$632,000
Options exercisable as of March 31, 2010	60,000	\$6.32	1.31	\$389,000

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

5. GOODWILL AND OTHER INTANGIBLES

Following are the changes in the carrying amounts of goodwill and licenses for the six months ended March 31, 2010 and 2009:

	2010		2009	
	Licenses	Goodwill	Licenses	Goodwill
Beginning balance	\$41,259,794	\$37,071,120	\$39,298,343	\$37,159,351
Change in tax basis of assets	-	14,813	-	-
Intangibles acquired	1,999,901	-	-	48,351
Ending balance	\$43,259,695	\$37,085,933	\$39,298,343	\$37,207,702

6. LONG-TERM DEBT

During November 2008, \$600,000 of related party debt matured and was paid in cash by the Company. The Company also made additional payments of \$946,597 on other long-term debt during the six months ended March 31, 2009.

7. COMMON STOCK

During the six months ended March 31, 2010, the Company purchased 58,000 shares of Company common stock for at an aggregate cost of \$544,065 in connection with the Company's payments on its put option and derivative liabilities. These shares were retired.

During the six months ended March 31, 2009, the Company purchased 162,041 shares of Company common stock for its treasury at an aggregate cost of \$585,589. These shares were later retired.

8. EARNINGS PER SHARE ("EPS")

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

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

Diluted EPS considers the potential dilution that could occur if the Company's outstanding common stock options, warrants and convertible debentures were converted into common stock that then shared in the Company's earnings (as adjusted for interest expense, that would no longer occur if the debentures were converted).

Net earnings applicable to common stock and the weighted – average number of shares used for basic and diluted earnings per share computations are summarized in the table that follows:

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

8. EARNINGS PER SHARE ("EPS") – continued

	FOR THE QUARTER ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2010	2009	2010	2009
Basic earnings per share:				
Income from continuing operations attributable to Rick's shareholders	\$ 2,958,285	\$ 880,727	\$ 3,757,143	\$ 1,861,518
Loss from discontinued operations, net of income taxes	(13,620)	(41,256)	(29,790)	(231,215)
Net income attributable to Rick's shareholders	\$ 2,944,665	\$ 839,471	\$ 3,727,353	\$ 1,630,303
Average number of common shares outstanding	9,361,328	9,313,819	9,365,751	9,339,926
Basic earnings per share - income from continuing operations	\$ 0.32	\$ 0.09	\$ 0.40	\$ 0.20
Basic earnings per share - discontinued operations	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.02)
Basic earnings per share - net income attributable to Rick's shareholders	\$ 0.31	\$ 0.09	\$ 0.40	\$ 0.17
Diluted earnings per share:				
Income from continuing operations attributable to Rick's shareholders	\$ 2,958,285	\$ 880,727	\$ 3,757,143	\$ 1,861,518
Adjustment to net earnings from assumed conversion of debentures (1)	180,000	-	-	-
Adjusted income from continuing operations	3,138,285	880,727	3,757,143	1,861,518
Discontinued operations	(13,620)	(41,256)	(29,790)	(231,215)
Adjusted net income attributable to Rick's shareholders	\$ 3,124,665	\$ 839,471	\$ 3,727,353	\$ 1,630,303
Average number of common shares outstanding:				
Common shares outstanding	9,361,328	9,313,819	9,365,751	9,339,926
Potential dilutive shares resulting from exercise of warrants and options (2)	86,756	173,709	28,380	203,815
Potential dilutive shares resulting from conversion of debentures (3)	835,428	-	-	-
Total average number of common shares outstanding used for dilution	10,283,512	9,487,528	9,394,131	9,543,741
Diluted earnings per share - income from continuing operations attributable to Rick's shareholders	\$ 0.31	\$ 0.09	\$ 0.40	\$ 0.20
Diluted earnings per share - discontinued operations	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.02)
Diluted earnings per share - net income attributable to Rick's shareholders	\$ 0.30	\$ 0.09	\$ 0.40	\$ 0.17

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

(2) All outstanding warrants and options were considered for the EPS computation. EPS may not foot due to rounding.

(3) Convertible debentures (principal and accrued interest) outstanding at March 31, 2010 and 2009 totaling \$7,680,522 and \$886,276, respectively, were convertible into common stock at a price from \$8.75 to \$12.00 per share in 2010 and \$12.00 to \$25.32 per share in 2009, respectively, and resulted in additional common shares (based on average balances outstanding) in 2010. Potential dilutive shares of 30,877 for the three months ended March 31, 2010 have been excluded from earnings per share due to being anti-dilutive.

* EPS may not foot due to rounding.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

9. ACQUISITIONS AND DISPOSITIONS

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

Pursuant to the terms of the RCI Purchase Agreement and the Assignment Agreement, RCI paid aggregate consideration of \$4,550,000, plus assumption of a promissory note with First State Bank-Taylor (the "Purchase Price"), for the acquisition of JOY and NIII. The Purchase Price was payable as follows:

(i) \$1,820,000 by wire transfer to Karamalegos;

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

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

(iv) \$1,320,000 evidenced by a five (5) year secured promissory note to Polycrates, bearing interest at the rate of 4.75% per annum and payable in sixty (60) equal monthly installments of principal and interest of \$24,759 (the "Polycrates Note"). The Polycrates Note is individually guaranteed by Karamalegos for the first thirty (30) months and is secured by a second lien in favor of Polycrates against the Property and improvements located thereon and a first lien on all of the shares of JOY and NIII; and

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

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

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

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

Net current assets	\$43,715
Property and equipment and other assets	2,955,000
Non-compete agreement	200,000
Goodwill	701,321
SOB licenses	2,003,774
Deferred tax liability	(701,321)
Net assets acquired	\$5,202,489

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

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

10. INCOME TAXES

Income tax expense on continuing operations for the periods presented differs from the "expected" federal income tax expense computed by applying the U.S. federal statutory rate of 34% to earnings before income taxes, for the three and six months ended March 31, as a result of the following:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2010	2009	2010	2009
Computed expected tax expense	\$1,517,099	\$501,261	\$1,984,501	\$1,052,620
State income taxes	38,321	29,791	76,641	67,182
Stock option disqualifying dispositions and other permanent differences	(125,150)	(10,982)	(128,516)	(32,379)
Total income tax expense	\$1,430,270	\$520,070	\$1,932,626	\$1,087,423

Included in the Company's deferred tax liabilities at March 31, 2010 is approximately \$14,800,000 representing the tax effect of indefinite lived intangible assets from club acquisitions which are not deductible for tax purposes. These deferred tax liabilities will remain in the Company's balance sheet until the related clubs are sold.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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11. DISCONTINUED OPERATIONS

The accompanying consolidated financial statements reflect the following as discontinued operations as of and for the periods ended March 31, 2010 and 2009:

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

The Company closed its Divas Latinas club in Houston during September 2009. This club is also recognized in discontinued operations.

In previous filings, the Company had recognized its Rick's Cabaret in Austin, Texas as a discontinued operation. That club was held for sale during a portion of 2009, but the Company has recently decided to renovate and reopen the club and relaunch it with a new concept in April 2010. Accordingly, the Austin club is recognized in continuing operations in the accompanying consolidated financial statements.

Following is summarized information regarding these discontinued operations:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Loss from discontinued operations	\$(20,954)	\$(63,471)	\$(45,831)	\$(129,541)
Loss on sale of discontinued operations	-	-	-	(226,175)
Income tax - discontinued operations	7,334	22,215	16,041	124,501
Total loss from discontinued operations, net of tax	\$(13,620)	\$(41,256)	\$(29,790)	\$(231,215)

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

	March 31, 2010	September 30, 2009
Current assets	\$ 59,631	\$ 59,524
Property and equipment	126,100	146,859
Other assets	3,649	3,649
Current liabilities	(7,244)	(19,092)
Long-term liabilities	(32,707)	(32,707)
Net assets (liabilities)	\$ 149,429	\$ 158,233

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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12. SEGMENT INFORMATION

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

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Business segment sales:				
Night clubs	\$21,984,928	\$17,955,136	\$41,587,751	\$34,728,430
Media	310,727	285,331	567,483	468,967
Internet websites	143,730	164,631	289,167	341,394
	\$22,439,385	\$18,405,098	\$42,444,401	\$35,538,791
Business segment operating income:				
Night clubs	\$6,080,681	\$2,996,158	\$9,141,308	\$6,255,711
Media	(90,863)	(56,323)	(155,747)	(272,599)
Internet websites	21,389	42,709	42,674	93,191
General corporate	(857,767)	(701,244)	(1,519,448)	(1,336,888)
	\$5,153,440	\$2,281,300	\$7,508,787	\$4,739,415
Business segment capital expenditures:				
Night clubs	\$631,743	\$226,990	\$4,911,593	\$802,425
Other	5,491	3,600	133,163	3,600
General corporate	212,105	46,324	141,318	72,515
	\$849,339	\$276,914	\$5,186,074	\$878,540
Business segment depreciation and amortization:				
Night clubs	\$837,104	\$813,052	\$1,616,428	\$1,612,017
Media	5,000	5,000	10,000	10,000
Internet websites	2,300	3,427	6,068	7,006
General corporate	48,036	37,132	91,922	73,941
	\$892,440	\$858,611	\$1,724,418	\$1,702,964

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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13. COMMITMENTS AND CONTINGENCIES

Beginning January 1, 2008, the Company's Texas clubs became subject to a new state law requiring each club to collect and pay a \$5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association ("TEA"), an organization to which we are a member, alleging the fee amounts to be an unconstitutional tax. On March 28, 2008, a State District Court Judge in Travis County, Texas ruled that the new state law violates the First Amendment to the United States Constitution and is therefore invalid. The judge's order enjoined the State from collecting or assessing the tax. The State appealed the Court's ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State has opted to collect the tax pending the outcome of its appeal. On June 5, 2009, the Court of Appeals for the Third District (Austin) affirmed the District Court's judgment that the Sexually Oriented Business ("S.O.B.") Fee violated the First Amendment to the U.S. Constitution. The Attorney General of Texas has asked the Texas Supreme Court to review the case. On August 26, 2009, the Texas Supreme Court ordered both sides to submit briefs on the merits, while not yet deciding whether to grant the State's Petition for review. The State's brief was filed on September 25, 2009 and the Texas Entertainment Association's brief was filed on October 15, 2009. On February 12, 2010, the Supreme Court of Texas granted review of the Petition by the Attorney General of Texas. Oral argument of the matter was heard on March 25, 2010.

The Company has paid the tax for the first five calendar quarters under protest and expensed the tax in the accompanying consolidated financial statements, except for two locations in Dallas where the taxes have not been paid, but the Company is accruing and expensing the liability. For the subsequent quarters, as a result of the Third Court's decision, the Company accrued the fee, but did not pay the State. As of March 31, 2010, the Company has approximately \$2.6 million in accrued liabilities for this tax. The Company has paid more than \$2 million to the State of Texas since the inception of the tax. The Company's Texas clubs have filed a separate lawsuit against the State to demand repayment of the taxes. If the State's appeal ultimately fails, the Company's current amount paid under protest would be repaid or applied to future admission tax and other Texas state tax liabilities.

For all the above legal matters, no contingent reserves for liabilities have been recorded in the accompanying consolidated balance sheets as such potential losses are not deemed probable or estimable.

14. SUBSEQUENT EVENTS

On August 6, 2009, the Company completed the sale of an aggregate of \$7,200,000 in 10% Convertible Debentures (the "Debentures") to certain accredited investors (the "Holders"). The Company sent a Notice of Redemption to all of the Holders, thereby exercising its right to redeem all of the Debentures, including the entire outstanding principal amount of all the Debentures and any accrued but unpaid interest thereon. Upon receipt of such Notice of Redemption, all of the Holders exercised their right to convert the principal amount plus all accrued but unpaid interest thereon of the Debentures at the conversion price of \$8.75 per share in lieu of receiving a cash payment (pursuant to the terms of the Debentures), effective as of May 3, 2010. Accordingly, on May 4, 2010, the Company issued an aggregate of 842,972 shares of its common stock to these Holders, in conversion of an aggregate of \$7,200,000 of outstanding principal and an aggregate of \$176,000 of outstanding interest on such Debentures. As a result of this conversion, the Company made no cash payments to the Holders in connection with the Notice of Redemption.

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

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

FORWARD LOOKING STATEMENT AND INFORMATION

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

GENERAL

We operate in three businesses in the adult entertainment industry:

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

2. We have Internet activities.

a) We currently own two adult Internet membership Web sites at www.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.

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3. In April 2008, we acquired a media division, including the leading trade magazine serving the multi-billion dollar adult nightclubs industry. As part of the transaction we also acquired two industry trade shows, two other industry trade publications and more than 25 industry websites.

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

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

CRITICAL ACCOUNTING POLICIES

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 consolidated financial condition and results of operations.

On July 1, 2009, the FASB issued Statement of Financial Accounting Standards No. 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which is included in FASB ASC 105, Generally Accepted Accounting Principles. This new guidance approved the FASB ASC as the single source of authoritative nongovernmental GAAP. The FASB ASC is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the FASB ASC will be considered non-authoritative. The ASC is a restructuring of GAAP designed to simplify access to all authoritative literature by providing a topically organized structure. The adoption of FASB ASC did not impact our financial condition or results of operations. Technical references to GAAP included in these notes to the consolidated financial statements are provided under the new FASB ASC structure.

Accounts and Notes Receivable

Trade accounts receivable for the nightclub operation is primarily comprised of credit card charges, which are generally converted to cash in two to five days after a purchase is made. The media division's accounts receivable is primarily comprised of receivables for advertising sales and Expo registration. Our 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. We recognize 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. We recognize allowances for doubtful accounts or notes when, based on management judgment, circumstances indicate that accounts or notes receivable will not be collected.

Marketable Securities

Marketable securities at March 31, 2010 consist of common stock. ASC 320, Investments in Debt and Equity Securities, requires certain investments be recorded at fair value or amortized cost. The appropriate classification of

the investments in marketable equity is determined at the time of purchase and re-evaluated at each balance sheet date. As of March 31, 2010, 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 have been no realized gains or losses related to marketable securities for the periods ended March 31, 2010 or 2009. Marketable securities held at March 31, 2010 have a cost basis of approximately \$1,009,000.

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Inventories

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

Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation and amortization are made using straight-line rates over the estimated useful lives of the related assets and the shorter of useful lives or terms of the applicable leases for leasehold improvements. Buildings have estimated useful lives ranging from 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 income of the respective period.

Goodwill and Intangible Assets

FASB ASC 350, Goodwill and Other Intangibles Assets addresses the accounting for goodwill and other intangible assets. Under FASB ASC 350, goodwill and intangible assets with indefinite lives are no longer amortized, but reviewed on an annual basis for impairment. All of our goodwill and intangible assets relate to the nightclub segment, except for \$567,000 related to the media segment. Definite lived intangible assets are amortized on a straight-line basis over their estimated lives. Fully amortized assets are written-off against accumulated amortization. Our annual evaluation was performed as of September 30, 2009, based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. We determined that there is no goodwill impairment at September 30, 2009, except for the impairment taken in the second quarter of fiscal 2009 relating to the discontinued operation in Austin.

Impairment of Long-Lived Assets

We review property and equipment and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of its carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets with definite lives are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair value. Assets are grouped at the lowest level for which there are identifiable cash flows, principally at the club level, when assessing impairment. Cash flows for our club assets are identified at the individual club level.

Certain of our recent acquisitions, specifically Las Vegas, Philadelphia and the Media Group, have been underperforming, principally due to the recent general economic downturn, especially in Las Vegas, but also due to certain specific operational issues, such as the change of concept in Philadelphia and the cab fare marketing issues in Las Vegas. Our assumptions for the projected cash flows for these units include a gradual recovery for the economy and gradual improvement in the cab fare issue in Las Vegas. With these assumptions, the cash flows from these units are adequate to show no need for impairment at this time. We will continue to monitor these units in the future in case our assumptions do not prove to be appropriate.

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Fair Value of Financial Instruments

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

Derivative Financial Instruments

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

Revenue Recognition

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

We recognize 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. We recognize Internet auction revenue when payment is received from the credit card as revenues are not deemed estimable nor collection deemed probable prior to that point.

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

Sales and Liquor Taxes

We recognize sales and liquor taxes paid as revenues and an equal expense in accordance with FASB ASC 605, Revenue Recognition. Total sales and liquor taxes aggregated \$2,777,000 and \$2,190,000 for the six months ended March 31, 2010 and 2009, respectively.

Advertising and Marketing

Advertising and marketing expenses are primarily comprised of costs related to public advertisements and giveaways, which are used for promotional purposes. This category also includes fees paid for transportation in certain cities, especially Las Vegas. Advertising and marketing expenses are expensed as incurred and are included in operating expenses in the accompanying consolidated statements of income.

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Income Taxes

Deferred income taxes are determined using the liability method in accordance with FASB ASC 740, Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

FASB ASC 740 creates a single model to address accounting for uncertainty in tax positions by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FASB ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. There are no unrecognized tax benefits to disclose in the notes to the consolidated financial statements.

Put Options

In certain situations, we issue restricted common shares as partial consideration for acquisitions of certain businesses or assets. Pursuant to the terms and conditions of the governing acquisition agreements, the holder of such shares has the right, but not the obligation, to put a fixed number of the shares on a monthly basis back to us at a fixed price per share. We may elect during any given month to either buy the monthly shares or, if management elects not to do so, the holder can sell the monthly shares in the open market, and any deficiency between the amount which the holder receives from the sale of the monthly shares and the value of shares will be paid by us. We have accounted for these shares in accordance with the guidance established by FASB ASC 480 as a reclassification of the value of the shares from permanent to temporary equity. As the shares become due, we transfer the value of the shares back to permanent equity, less any amount paid to the holder. Also see “Derivative Financial Instruments” above.

Earnings Per Common Share (“EPS”)

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

Potential common stock shares consist of shares that may arise from outstanding dilutive common stock options and warrants (the number of which is computed using the “treasury stock method”) and from outstanding convertible debentures (the number of which is computed using the “if converted method”). Diluted EPS considers the potential dilution that could occur if our outstanding common stock options, warrants and convertible debentures were converted into common stock that then shared in our earnings (as adjusted for interest expense, that would no longer occur if the debentures were converted).

Stock Options

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

The stock option compensation costs recognized for the quarters ended March 31, 2010 and 2009 were \$44,037 and \$20,044, respectively and were \$88,074 and \$40,088, respectively, for the six months then ended. There were no stock options grants nor exercises for the quarters ended March 31, 2010 and 2009.

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RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2010 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2009

For the three months ended March 31, 2010, we had consolidated total revenues of \$22,439,385 compared to consolidated total revenues of \$18,405,098 for the three months ended March 31, 2009, an increase of \$4,034,287 or 21.9%. The increase in total revenues was primarily attributable to a 14.3% increase in same store sales for the quarter plus new club acquisitions in Fort Worth and Austin, Texas. Total revenues for same-location-same-period of club continuing operations increased 14.9% to \$20,289,000 for the three months ended March 31, 2010 from \$17,664,000 for the same period ended March 31, 2009. Same store sales were significantly affected by the Super Bowl in Miami and the NBA All Star Game in Dallas in February 2010.

Income taxes, as a percentage of income before taxes were 32.1% and 35.3% for the quarters ended March 31, 2010 and 2009, respectively. The decrease in 2010 is due to the lack of significant permanent difference deductions in 2009 compared to 2010, principally related to the gain on the change in fair value of derivative instruments.

The increase in net income was primarily due to the increase in revenues explained above and a decrease in marketing costs in Las Vegas and in Dallas/Fort Worth. Income before income taxes (exclusive of corporate overhead) for same-location-same-period of club continuing operations increased to \$5,945,020 for the three months ended March 31, 2010 from \$3,503,869 for same period ended March 31, 2009, or by 69.7%.

Following is a comparison of the Company's income statement for the quarters ended March 31, 2010 and 2009 with percentages compared to total revenue:

	2010	%		2009	%	
Sales of alcoholic beverages	\$9,028,930	40.2	%	\$6,965,973	37.8	%
Sales of food and merchandise	1,782,326	7.9	%	1,565,931	8.5	%
Service Revenues	10,225,314	45.6	%	8,795,369	47.8	%
Internet Revenues	143,730	0.6	%	164,631	0.9	%
Media	310,727	1.4	%	285,331	1.6	%
Other	948,358	4.2	%	627,863	3.4	%
Total Revenues	22,439,385	100.0	%	18,405,098	100.0	%
Cost of Goods Sold	2,639,473	11.8	%	2,212,112	12.0	%
Salaries & Wages	4,411,424	19.7	%	3,995,568	21.7	%
Stock Base Compensation	44,037	0.2	%	20,044	0.1	%
Taxes and permits	3,334,371	14.9	%	2,395,423	13.0	%
Credit card fees	369,685	1.6	%	447,948	2.4	%
Rent	1,027,577	4.6	%	920,823	5.0	%
Legal & professional	759,463	3.4	%	810,513	4.4	%
Advertising and marketing	1,506,831	6.7	%	1,696,161	9.2	%
Depreciation and amortization	892,440	4.0	%	858,611	4.7	%
Insurance	259,279	1.2	%	267,128	1.5	%
Utilities	410,878	1.8	%	374,393	2.0	%
Impairment of nightclub assets	-	0.0	%	823,090	4.5	%
Other	1,630,487	7.3	%	1,301,984	7.1	%
Total operating expenses	17,285,945	77.0	%	16,123,798	87.6	%
Income from continuing operations	5,153,440	23.0	%	2,281,300	12.4	%

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Interest and other income	2,906	0.0	%	1,828	0.0	%
Interest expense	(1,079,498)	-4.8	%	(808,831)	-4.4	%
Gain on change in fair value of derivative instruments	385,207	1.7	%	-	0.0	%
Income from continuing operations before income taxes	\$4,462,055	19.9	%	\$1,474,297	8.0	%

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

Other revenues include ATM commissions earned, video games and other vending and certain promotion fees charged to our entertainers. The Company recognizes revenue from other revenues and services at the point-of-sale upon receipt of cash, check, or credit card charge.

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding, media postage and internet traffic purchases and webmaster payouts. The cost of goods sold for the club operations for the three months ended March 31, 2010 was 11.5% compared to 11.9% for the three months ended March 31, 2009. The cost of goods sold from our internet operations for the three months ended March 31, 2010 was 2.8% compared to 1.6% for the three months ended March 31, 2009. The cost of goods sold from our media operations for the three months ended March 31, 2010 was 33.7%, compared to 28.6% for the previous year quarter. The cost of goods sold for same-location-same-period of club continuing operations for the three months ended March 31, 2010 was 10.8%, compared to 11.9% for the same period ended March 31, 2009.

The increase in payroll and related costs, stated as "Salaries & Wages" above, was primarily due to the addition of the new clubs. The decrease in percentage to total revenues is principally due to the large increase in sales which was accomplished with similar staffing. Payroll for same-location-same-period of club continuing operations increased to \$3,302,402 for the three months ended March 31, 2010 from \$3,151,839 for the same period ended March 31, 2009. Management currently believes that its labor and management staff levels are appropriate.

Taxes and permits consists principally of payroll taxes, property taxes, sales and alcohol taxes, licenses and permits and the patron tax in our nightclubs in Texas. The increase in percentage to total revenues in 2010 is principally due to the two new clubs in Texas which are subject to the patron tax.

The decrease in the percentage of advertising and marketing to total revenue in 2010 is principally due to the improvement in the marketing costs in Las Vegas and a decrease in the marketing campaign in Dallas/Fort Worth after a significant campaign in the first quarter.

Rent expense increased principally due to the new club in Fort Worth.

The decrease in legal and professional expense is principally due to the first quarter settlement of the labor lawsuit in Minnesota.

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Impairment of nightclub assets in the quarter ended March 31, 2009 relates to the impairment of our club in Austin, Texas, which has been reconcepted and reopened in April 2010.

We incurred certain one-time costs related to negotiating the unsuccessful acquisition of VCG Holdings. These costs amounted to \$246,300 for the quarter ended March 31, 2010. Without these costs, our fully diluted earnings per share would have increased by \$0.02.

The increase in interest expense was attributable to our obtaining new debt during August 2009 to finance the purchase of new clubs and related real estate. As of March 31, 2010, the balance of long-term debt was \$39,103,045 compared to \$32,022,198 a year earlier.

Gain on change in fair value of derivative instruments represents the calculated gain on the derivative principally caused by the increase in our common stock price during the 2010 quarter.

Losses, before income taxes, at clubs losing money during the quarter ended March 31, 2010 was approximately \$391,000, compared to \$1.3 million for the quarter ended December 31, 2009 and \$900,000 for the March 31, 2009 quarter. The significant losing club in the prior quarters was Rick's Cabaret in Las Vegas, which lost \$500,000 for the quarter ended December 31, 2009 and \$633,000 for the quarter ended March 31, 2009. The Company took the following steps to remedy losses in certain clubs:

Rick's Cabaret Las Vegas made a profit of approximately \$150,000 before income taxes for the quarter ended March 31, 2010. We have made expense reductions and modifications to our marketing campaign in this location and continue to see improvement in operations.

The Rick's Cabaret in Philadelphia was losing money since inception. We have converted the location to Club Onyx Philadelphia in January 2009 and the club began to be profitable until the economic recession in Philadelphia began to reduce revenues. We have changed management recently in this club and have begun to show better revenues. We have also negotiated a \$14,000 per month decrease in rent, beginning May 1.

The accompanying consolidated financial statements reflect the following as discontinued operations as of and for the period ended March 31, 2010:

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

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

In previous filings, we had recognized our Rick's Cabaret in Austin, Texas as a discontinued operation. That club was held for sale during a portion of 2009, but we have recently decided to renovate and reopen the club and relaunch it with a new concept in April 2010. Accordingly, the Austin club is recognized in continuing operations in the accompanying consolidated financial statements.

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Following is summarized information regarding these discontinued operations:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Loss from discontinued operations	\$(20,954)	\$(63,471)	\$(45,831)	\$(129,541)
Loss on sale of discontinued operations	-	-	-	(226,175)
Income tax - discontinued operations	7,334	22,215	16,041	124,501
Total loss from discontinued operations, net of tax	\$(13,620)	\$(41,256)	\$(29,790)	\$(231,215)

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

	March 31, 2010	September 30, 2009
Current assets	\$ 59,631	\$ 59,524
Property and equipment	126,100	146,859
Other assets	3,649	3,649
Current liabilities	(7,244)	(19,092)
Long-term liabilities	(32,707)	(32,707)
Net assets (liabilities)	\$ 149,429	\$ 158,233

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2010 AS COMPARED TO THE SIX MONTHS ENDED MARCH 31, 2009

For the six months ended March 31, 2010, we had consolidated total revenues of \$42,444,401 compared to consolidated total revenues of \$35,538,791 for the six months ended March 31, 2009, an increase of \$6,905,610 or 19.4%. The increase in total revenues was primarily attributable to an increase in same store sales plus new club acquisitions in Fort Worth and Austin, Texas. Total revenues for same-location-same-period of club continuing operations increased to approximately \$39,048,000 for the six months ended March 31, 2010 from approximately \$34,049,000 for same period ended March 31, 2009, a 14.7% increase.

Income taxes, as a percentage of income before taxes were 33.1% and 35.1% for the six months ended March 31, 2010 and 2009, respectively. The decrease in 2010 is due to the lack of significant permanent difference deductions in 2009 compared to 2010, principally related to the gain on the change in fair value of derivative instruments.

The increase in net income was primarily due to the increase in revenues explained above and a decrease in marketing costs in Las Vegas and in Dallas/Fort Worth. Income before income taxes (exclusive of corporate overhead) for same-location-same-period of club continuing operations increased to \$9,055,920 for the six months ended March 31, 2010 from \$6,441,262 for same period ended March 31, 2009, or by 40.6%.

Following is a comparison of the Company's income statement for the six months ended March 31, 2010 and 2009 with percentages compared to total revenue:

	2010	%		2009	%	
Sales of alcoholic beverages	\$17,078,395	40.2	%	\$13,599,544	38.3	%
Sales of food and merchandise	3,372,338	7.9	%	2,985,996	8.4	%
Service Revenues	19,517,562	46.0	%	16,935,258	47.7	%
Internet Revenues	289,167	0.7	%	341,394	1.0	%

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Media	567,483	1.3	%	468,967	1.3	%
Other	1,619,456	3.8	%	1,207,632	3.4	%
Total Revenues	42,444,401	100.0	%	35,538,791	100.0	%
Cost of Goods Sold	5,096,011	12.0	%	4,441,585	12.5	%
Salaries & Wages	8,721,729	20.5	%	8,216,454	23.1	%
Stock Base Compensation	88,074	0.2	%	40,088	0.1	%
Taxes and permits	6,169,934	14.5	%	4,714,723	13.3	%
Credit card fees	715,873	1.7	%	786,488	2.2	%
Rent	2,051,111	4.8	%	1,869,185	5.3	%
Legal & professional	1,409,072	3.3	%	1,314,562	3.7	%
Advertising and marketing	4,445,004	10.5	%	2,868,533	8.1	%
Depreciation and amortization	1,724,418	4.1	%	1,702,964	4.8	%
Insurance	521,131	1.2	%	506,365	1.4	%
Utilities	816,747	1.9	%	803,311	2.3	%
Impairment of nightclub assets	-	0.0	%	823,090	2.3	%
Other	3,176,510	7.5	%	2,712,028	7.6	%
Total operating expenses	34,935,614	82.3	%	30,799,376	86.7	%
Income from continuing operations	7,508,787	17.7	%	4,739,415	13.3	%
Interest income and other	6,580	0.0	%	(1,172)	0.0	%
Interest expense	(2,108,080)	-5.0	%	(1,642,302)		