

**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, 2012

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

Commission File Number: 001-13992

RICK'S CABARET INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Texas
(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 April 30, 2012, 9,739,373 shares of the registrant's Common Stock were outstanding.

RICK'S CABARET INTERNATIONAL, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

ASSETS

<u>(in thousands, except per share data)</u>	March 31, 2012	September 30, 2011
Assets	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	\$ 11,664	\$ 9,698
Accounts receivable:		
Trade, net	1,717	779
Other, net	584	1,161
Marketable securities	532	515
Inventories	1,249	1,174
Deferred tax asset	3,074	5,195
Prepaid expenses and other current assets	1,595	1,025
Assets of discontinued operations	80	112
Total current assets	20,495	19,659
Property and equipment, net	82,360	65,892
Other assets:		
Goodwill and indefinite lived intangibles, net	67,773	65,642
Definite lived intangibles, net	963	1,091
Other	1,524	1,093
Total other assets	70,260	67,826
Total assets	\$ 173,115	\$ 153,377

See accompanying notes to consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>(in thousands, except per share data)</u>	March 31, 2012 (UNAUDITED)	September 30, 2011
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,341	\$ 1,215
Accrued liabilities	6,102	2,766
Texas patron tax liability	8,368	6,830
Current portion of derivative liabilities	470	1,209
Current portion of long-term debt	5,963	5,494
Liabilities of discontinued operations	140	177
Total current liabilities	22,384	17,691
Deferred tax liability	23,006	23,033
Other long-term liabilities	809	785
Long-term debt	41,033	30,060
Total liabilities	87,232	71,569
Commitments and contingencies		
Temporary equity - Common stock, subject to put rights 39 and 66 shares, respectively	897	1,586
PERMANENT STOCKHOLDERS' EQUITY:		
Preferred stock, \$.10 par, 1,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.01 par, 20,000 shares authorized; 9,680 and 9,604 shares issued and outstanding, respectively	97	96
Additional paid-in capital	61,892	61,446
Accumulated other comprehensive loss	27	10
Retained earnings	19,663	15,361
Total Rick's permanent stockholders' equity	81,679	76,913
Noncontrolling interests	3,307	3,309
Total permanent stockholders' equity	84,986	80,222
Total liabilities and stockholders' equity	\$ 173,115	\$ 153,377

See accompanying notes to consolidated financial statements.

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

<u>(in thousands, except per share data)</u>	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE SIX MONTHS ENDED MARCH 31,	
	2012	2011	2012	2011
	(UNAUDITED)		(UNAUDITED)	
Revenues:				
Sales of alcoholic beverages	\$ 10,406	\$ 8,405	\$ 19,322	\$ 16,163
Sales of food and merchandise	2,335	1,879	4,333	3,578
Service revenues	11,281	10,076	21,167	19,084
Internet revenues	100	120	201	245
Media revenues	176	192	359	409
Other	1,116	907	2,050	1,768
Total revenues	<u>25,414</u>	<u>21,579</u>	<u>47,432</u>	<u>41,247</u>
Operating expenses:				
Cost of goods sold	3,390	2,665	6,322	5,083
Salaries and wages	5,204	4,460	10,130	8,821
Stock compensation	12	-	21	-
Other general and administrative:				
Taxes and permits	3,953	3,306	7,404	6,221
Charge card fees	373	321	681	642
Rent	721	773	1,424	1,549
Legal and professional	741	472	1,441	912
Advertising and marketing	1,040	842	2,035	1,813
Insurance	347	280	638	549
Utilities	406	380	807	745
Depreciation and amortization	1,190	949	2,310	1,854
Settlement of lawsuit	1,831	-	1,831	-
Other	1,750	1,541	3,568	3,021
Total operating expenses	<u>20,958</u>	<u>15,989</u>	<u>38,612</u>	<u>31,210</u>
Operating income	4,456	5,590	8,820	10,037
Other income (expense):				
Interest income	1	44	3	56
Interest expense	(1,106)	(1,110)	(2,079)	(2,234)
Gain on change in fair value of derivative instruments	40	333	138	481
Income from continuing operations before income taxes	3,391	4,857	6,882	8,340
Income taxes	1,134	1,573	2,342	2,709
Income from continuing operations	<u>2,257</u>	<u>3,284</u>	<u>4,540</u>	<u>5,631</u>
Loss from discontinued operations, net of income taxes	(87)	(308)	(133)	(526)
Net income	<u>2,170</u>	<u>2,976</u>	<u>4,407</u>	<u>5,105</u>
Less: net income attributable to noncontrolling interests	(53)	(53)	(106)	(107)
Net income attributable to Rick's Cabaret International, Inc.	<u>\$ 2,117</u>	<u>\$ 2,923</u>	<u>\$ 4,301</u>	<u>\$ 4,998</u>

Basic earnings (loss) per share								
attributable to Rick's shareholders:								
Income from continuing operations	\$	0.23	\$	0.33	\$	0.46	\$	0.55
Loss from discontinued operations	\$	(0.01)	\$	(0.03)	\$	(0.01)	\$	(0.05)
Net income	\$	0.22	\$	0.29	\$	0.44	\$	0.50
Diluted earnings (loss) per share								
attributable to Rick's shareholders:								
Income from continuing operations	\$	0.23	\$	0.32	\$	0.46	\$	0.55
Loss from discontinued operations	\$	(0.01)	\$	(0.03)	\$	(0.01)	\$	(0.05)
Net income	\$	0.22	\$	0.29	\$	0.44	\$	0.50
Weighted average number of common								
shares outstanding:								
Basic		9,720		9,937		9,703		9,990
Diluted		9,731		10,771		9,710		10,004

Comprehensive income for the three months ended March 31, 2012 and 2011 was \$2,119 and \$2,929, and for the six months was \$4,318 and \$4,978, respectively. This includes the changes in available-for-sale securities and net income.

See accompanying notes to consolidated financial statements.

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

(in thousands, except per share data)

FOR THE SIX MONTHS
ENDED MARCH 31,

2012 2011

(UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 4,407	\$ 5,105
Loss from discontinued operations	133	526
Income from continuing operations	<u>4,540</u>	<u>5,631</u>
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,310	1,854
Deferred taxes	2,164	1,038
Amortization of note discount	72	72
Gain on change in fair value of derivative instruments	(138)	(481)
Deferred rents	24	33
Stock compensation expense	21	-
Changes in operating assets and liabilities:		
Accounts receivable	(348)	(250)
Inventories	(39)	(36)
Prepaid expenses and other assets	(982)	(871)
Accounts payable and accrued liabilities	4,493	1,500
Cash provided by operating activities of continuing operations	<u>12,117</u>	<u>8,490</u>
Cash used in operating activities of discontinued operations	<u>(137)</u>	<u>(38)</u>
Net cash provided by operating activities	11,980	8,452

CASH FLOWS FROM INVESTING ACTIVITIES:

Additions to property and equipment	(4,749)	(3,480)
Purchase of marketable securities	-	(505)
Acquisition of businesses, net of cash acquired	<u>(1,434)</u>	<u>(1,150)</u>
Cash used in investing activities of continuing operations	<u>(6,183)</u>	<u>(5,135)</u>
Cash use in investing activities of discontinued operations	-	(12)
Net cash used by investing activities	(6,183)	(5,147)

CASH FLOWS FROM FINANCING ACTIVITIES:

Purchase of put options and payments on derivative instrument	(1,044)	(1,345)
Payments on long-term debt	(2,857)	(1,767)
Purchase of treasury stock	(722)	(1,395)
Exercise of warrants	900	-
Distribution to minority interests	<u>(108)</u>	<u>(108)</u>
Cash used in financing activities of continuing operations	<u>(3,831)</u>	<u>(4,615)</u>

NET INCREASE (DECREASE) IN CASH

1,966 (1,310)

CASH AT BEGINNING OF PERIOD

9,698 18,599

CASH AT END OF PERIOD

\$ 11,664 \$ 17,289

CASH PAID (RECEIVED) DURING PERIOD FOR:

Interest	<u>\$ 1,836</u>	<u>\$ 1,959</u>
Income taxes	<u>\$ (562)</u>	<u>\$ 2,199</u>

See accompanying notes to consolidated financial statements.

Non-cash transactions:

During the six months ended March 31, 2012, the Company utilized \$8 million in seller-financed long-term debt in a business acquisition and utilized \$6.2 million in seller-financed long-term debt in the purchase of real estate and aircraft.

During the six months ended March 31, 2012, the Company purchased and retired 93,240 common treasury shares. The cost of these shares was \$721,763.

During the six months ended March 31, 2011, the Company purchased and retired 181,800 common treasury shares. The cost of these shares was \$1,395,189.

During the six months ended March 31, 2011, the Company issued 26,320 shares of common stock for debt aggregating \$269,780.

See accompanying notes to consolidated financial statements.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(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, 2011 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 six months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending September 30, 2012.

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

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

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

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

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(UNAUDITED)

2. RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS - continued

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

3. SIGNIFICANT ACCOUNTING POLICIES

Following are certain remarkable accounting principles and disclosures.

Marketable Securities

Marketable securities at March 31, 2012 consist of bond funds. ASC 320, *Investments in Debt and Equity Securities*, requires certain investments be recorded at fair value or amortized cost. The appropriate classification of the investments in marketable equity is determined at the time of purchase and re-evaluated at each balance sheet date. As of March 31, 2012, the Company's marketable securities were classified as available-for-sale, which are carried at fair value, with unrealized gains and losses reported as other comprehensive income within the stockholders' equity section of the accompanying consolidated balance sheets. The cost of marketable securities sold is determined on a specific identification basis. The fair value of marketable securities is based on quoted market prices based on Level 1 inputs -- quoted prices (unadjusted) for identical assets or liabilities in active markets. There have been no realized gains or losses related to marketable securities for the six month periods ended March 31, 2012 or 2011. Marketable securities held at March 31, 2012 have a cost basis of approximately \$505,056.

Fair Value of Financial Instruments

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

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Discontinued Operations

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

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

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

4. STOCK OPTIONS AND STOCK-BASED EMPLOYEE COMPENSATION

Employee and Director Stock Option Plans

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

The compensation costs recognized for the three months ended March 31, 2012 and 2011 were \$12,381 and zero, respectively, and were \$20,635 and zero for the six months then ended, respectively. There were no stock option grants or exercises for the six months ended March 31, 2012 or 2011.

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(UNAUDITED)

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

Stock Option Activity

The following is a summary of all stock option transactions for the six months ended March 31, 2012:

(in thousands, except for per share and year information)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2011	520	\$10.01		
Granted	-	-		
Cancelled or expired	-	-		
Exercised	-	-		
Outstanding as of March 31, 2012	<u>520</u>	<u>\$10.01</u>	<u>0.56</u>	<u>\$0</u>
Options exercisable as of March 31, 2012	<u>485</u>	<u>\$10.21</u>	<u>0.50</u>	<u>\$0</u>

5. GOODWILL AND OTHER INTANGIBLES

Following are the changes in the carrying amounts of goodwill and licenses for the six months ended March 31, 2012 and 2011:

(in thousands)	2012		2011	
	<u>Licenses</u>	<u>Goodwill</u>	<u>Licenses</u>	<u>Goodwill</u>
Beginning balance	\$ 42,092	\$ 23,550	\$ 40,740	\$ 21,021
Intangibles acquired	1,603	-	1,150	2,731
Other	-	528	202	(202)
Ending balance	<u>\$ 43,695</u>	<u>\$ 24,078</u>	<u>\$ 42,092</u>	<u>\$ 23,550</u>

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(UNAUDITED)

6. SEGMENT INFORMATION

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

(in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Business segment sales:				
Night clubs	\$ 25,138	\$ 21,267	\$ 46,872	\$ 40,593
Media	176	192	359	409
Internet websites	100	120	201	245
	<u>\$ 25,414</u>	<u>\$ 21,579</u>	<u>\$ 47,432</u>	<u>\$ 41,247</u>
Business segment operating income:				
Night clubs	\$ 7,078	\$ 6,489	\$ 12,342	\$ 11,835
Media	(83)	(46)	(173)	(123)
Internet websites	(45)	(20)	(71)	(24)
General corporate	(2,494)	(833)	(3,278)	(1,651)
	<u>\$ 4,456</u>	<u>\$ 5,590</u>	<u>\$ 8,820</u>	<u>\$ 10,037</u>
Business segment capital expenditures:				
Night clubs	\$ 13,943	\$ 2,732	\$ 15,009	\$ 3,345
Other	1	-	1	1
General corporate	3,456	90	3,567	134
	<u>\$ 17,400</u>	<u>\$ 2,822</u>	<u>\$ 18,577</u>	<u>\$ 3,480</u>
Business segment depreciation and amortization:				
Night clubs	\$ 1,023	\$ 736	\$ 1,995	\$ 1,436
Media	5	5	10	10
Internet websites	1	2	2	6
General corporate	161	206	303	402
	<u>\$ 1,190</u>	<u>\$ 949</u>	<u>\$ 2,310</u>	<u>\$ 1,854</u>
Business segment assets:				
	March 31, 2012	September 30, 2011		
Night clubs	\$ 146,406	\$ 125,426		
Media	919	773		
Internet websites	176	107		
Discontinued operations	80	112		
General corporate	25,534	26,959		
	<u>\$ 173,115</u>	<u>\$ 153,377</u>		

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

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(UNAUDITED)

7. COMMON STOCK

During the six months ended March 31, 2012, the Company purchased 93,240 shares of Company common stock for its treasury at an aggregate cost of \$721,763. These shares have been retired.

During the six months ended March 31, 2012, the Company issued 102,856 shares of common stock for exercised warrants aggregating \$899,990.

During the six months ended March 31, 2011, the Company purchased 181,800 shares of Company common stock for its treasury at an aggregate cost of \$1.4 million. These shares have been retired.

During the six months ended March 31, 2011, the Company issued 26,320 shares of common stock for debt aggregating \$269,780.

8. EARNINGS PER SHARE (“EPS”)

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

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

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012
(UNAUDITED)

8. EARNINGS PER SHARE (“EPS”) - continued

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

	FOR THE QUARTER		FOR THE SIX MONTHS	
	ENDED MARCH 31,		ENDED MARCH 31,	
	2012	2011	2012	2011
Basic earnings per share:				
Income from continuing operations attributable to Rick's shareholders	\$ 2,204	\$ 3,231	\$ 4,434	\$ 5,524
Loss from discontinued operations, net of income taxes				
	(87)	(308)	(133)	(526)
Net income attributable to Rick's shareholders	<u>\$ 2,117</u>	<u>\$ 2,923</u>	<u>\$ 4,301</u>	<u>\$ 4,998</u>
Average number of common shares outstanding	<u>9,720</u>	<u>9,937</u>	<u>9,703</u>	<u>9,990</u>
Basic earnings per share - income from continuing operations	<u>\$ 0.23</u>	<u>\$ 0.33</u>	<u>\$ 0.46</u>	<u>\$ 0.55</u>
Basic earnings per share - discontinued operations	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	<u>\$ (0.05)</u>
Basic earnings per share - net income attributable to Rick's shareholders	<u>\$ 0.22</u>	<u>\$ 0.29</u>	<u>\$ 0.44</u>	<u>\$ 0.50</u>
Diluted earnings per share:				
Income from continuing operations attributable to Rick's shareholders	\$ 2,204	\$ 3,231	\$ 4,434	\$ 5,524
Adjustment to net earnings from assumed conversion of debentures (1)	-	227	-	-
Adjusted income from continuing operations	2,204	3,458	4,434	5,524
Discontinued operations				
	(87)	(308)	(133)	(526)
Adjusted net income attributable to Rick's shareholders	<u>\$ 2,117</u>	<u>\$ 3,150</u>	<u>\$ 4,301</u>	<u>\$ 4,998</u>
Average number of common shares outstanding:				
Common shares outstanding	9,720	9,937	9,703	9,990
Potential dilutive shares resulting from exercise of warrants and options (2)	11	25	7	14
Potential dilutive shares resulting from conversion of debentures (3)	-	809	-	-
Total average number of common shares outstanding used for dilution	<u>9,731</u>	<u>10,771</u>	<u>9,710</u>	<u>10,004</u>
Diluted earnings per share - income from continuing operations attributable to Rick's shareholders	<u>\$ 0.23</u>	<u>\$ 0.32</u>	<u>\$ 0.46</u>	<u>\$ 0.55</u>
Diluted earnings per share - discontinued operations	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	<u>\$ (0.05)</u>
Diluted earnings per share - net income attributable to Rick's shareholders	<u>\$ 0.22</u>	<u>\$ 0.29</u>	<u>\$ 0.44</u>	<u>\$ 0.50</u>

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

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

(3) Convertible debentures (principal and accrued interest) outstanding at March 31, 2012 and 2011 totaling \$5.4 million and \$8.3 million, respectively, were convertible into common stock at a price of \$10.00 and \$10.25 per share in 2012 and \$10.25 to \$12.00 per share in 2011. Potential dilutive shares of 526,393 and zero for the three months ended March 31, 2012 and 2011, respectively, and 526,393 and 809,280 for the six months ended March 31, 2012 and 2011, respectively, have been excluded from earnings per share due to being anti-dilutive.

* EPS may not foot due to rounding.

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

Fiscal 2012

The Company's wholly owned subsidiary, RCI Dining Services (Tarrant County), Inc., a Texas Corporation ("RCI Tarrant County"), entered into an Agreement for Purchase and Sale of Membership Units with Fred McDonald ("Seller") for the purchase of 100% of the membership units of 12291 CBW, LLC ("12291 CBW"). 12291 CBW owned and operated an adult entertainment cabaret known as "The New West" located at 12291 Camp Bowie West, Aledo, Texas. The Agreement for Purchase and Sale of Membership Units closed October 5, 2011, whereby RCI Tarrant County acquired the membership units of 12291 CBW for the purchase price of \$380,000. The Company now operates the BYOB club as "Temptations". The Company also paid \$55,000 at closing for certain costs related to the access to the club. The entire \$380,000 has been allocated to license.

Our wholly owned subsidiaries, RCI Dining Services (Stemmons), Inc. ("RCI Stemmons"), RCI Dining Services (Inwood), Inc. ("RCI Inwood") and RCI Dining Services (Stemmons 2), Inc. ("RCI Dining") entered into a Stock Purchase Agreement (the "Prior Agreement") with Mr. Thanasi Mantas, Green Star, Inc. ("Green Star"), Fine Dining Club, Inc. ("Fine Dining"), Blue Star Entertainment Inc. ("Blue Star"), Adelphi Group Ltd. ("Adelphi") and PNYX Limited Partnership ("PNYX"). The Prior Agreement was amended on December 28, 2011. On January 11, 2012, (i) Green Star, Fine Dining, Mr. Mantas, Adelphi, PNYX, RCI Stemmons, RCI Dining and RCI Holdings, Inc., our wholly owned subsidiary ("RCI Holdings"), entered into a new Stock Purchase Agreement (the "Silver City Purchase Agreement") and (ii) Blue Star, Mr. Mantas, PNYX, RCI Inwood and RCI Holdings entered into a separate Stock Purchase Agreement (the "Blue Star Purchase Agreement"), which was subsequently terminated. The entry into the Silver City Purchase Agreement and the Blue Star Purchase Agreement terminated the Prior Agreement, as amended.

Green Star owns and operates an adult entertainment cabaret known as "Silver City Cabaret," located at 7501 N. Stemmons Freeway, Dallas, Texas 75247. Fine Dining has a concession to provide alcohol sales and services to Green Star at the Silver City Cabaret. Mr. Mantas owned 100% of the stock of Green Star and Fine Dining. Pursuant to the Silver City Purchase Agreement, Mr. Mantas agreed to sell (i) all the stock of Green Star to RCI Stemmons for the purchase price of \$1,400,000 in the form of a promissory note and (ii) all the stock of Fine Dining to RCI Fine Dining for the purchase price of \$100,000 in the form of a promissory note. Each of the promissory notes will be payable over 11 years and have an adjustable interest rate of 5.5%. This transaction closed on January 17, 2012.

Adelphi owned the real properties where the Silver City Cabaret is located, including 7501 N. Stemmons Freeway, Dallas, Texas 75247 and 7600 John West Carpenter Freeway, Dallas, Texas 75247, and PNYX owned certain adjacent real property at 7506 John West Carpenter Freeway, Dallas, Texas 75247. In transactions related to the Prior Agreement, Adelphi and PNYX had previously entered into real estate purchase agreements with RCI Holdings on November 17, 2011, which agreements were subsequently amended as part of the Silver City Purchase Agreement transaction. Pursuant to the real estate purchase agreements, as amended, (i) Adelphi agreed to sell the real properties at 7501 N. Stemmons and 7600 John West Carpenter for the purchase price of \$6,500,000, payable \$300,000 in cash and \$6,200,000 in the form of an adjustable 5.5% promissory note that is payable over 11 years, and (ii) PNYX agreed to sell the real property at 7506 John West Carpenter for the purchase price of \$1,000,000, payable \$700,000 in cash and \$300,000 in the form of an adjustable 5.5% promissory note that is payable over 11 years. The real estate transactions closed contemporaneously with the Silver City Purchase Agreement.

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

At closing of the Silver City Purchase Agreement transactions, Mr. Mantas entered into a Non-Competition Agreement providing for him to not compete with our subsidiaries by owning, participating or operating an establishment featuring adult entertainment within Dallas County and all contiguous counties (excepting the property located at 1449 Inwood Road, Dallas, Texas 75247).

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

(in thousands)

Building, land and contents	\$	7,502
Equipment and furniture		130
Noncompete		100
Inventory and other current assets		47
Goodwill		427
SOB licenses		1,221
Deferred taxes		(427)
Net assets	<u>\$</u>	<u>9,000</u>

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

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

Goodwill in the acquisition represents the offset to the deferred tax liability recorded as a result of the difference in the basis of the net assets for tax and financial purposes. The goodwill is not deductible for income tax purposes. The results of operations of these entities are included in the Company's consolidated results of operations since January 17, 2012. This acquisition was made to further the Company's growth objective of acquiring nightclubs that will quickly contribute to the Company's earnings per share. Proforma results of operations have not been provided, as the amounts were not deemed material to the consolidated financial statements.

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

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
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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 months ended December 31, as a result of the following:

	For the Three Months		For the Six Months	
	Ended March 31,		Ended March 31,	
	2012	2011	2012	2011
Computed expected tax expense	\$ 1,153	\$ 1,651	\$ 2,340	\$ 2,836
State income taxes	35	29	70	59
Stock option disqualifying dispositions and other permanent differences	(54)	(107)	(68)	(186)
Total income tax expense	<u>\$ 1,134</u>	<u>\$ 1,573</u>	<u>\$ 2,342</u>	<u>\$ 2,709</u>

Included in the Company’s deferred tax liabilities at March 31, 2012 is approximately \$15.1 million representing the tax effect of indefinite lived intangible assets from club acquisitions which are not deductible for tax purposes. These deferred tax liabilities will remain in the Company’s balance sheet until the related clubs are sold.

11. COMMITMENTS AND CONTINGENCIES

Beginning January 1, 2008, the Company’s Texas clubs became subject to a new state law requiring each club to collect and pay a \$5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association (“TEA”), an organization to which the Company is a member, alleging the fee amounts to be an unconstitutional tax. On March 28, 2008, a State District Court Judge in Travis County, Texas ruled that the new state law violates the First Amendment to the United States Constitution and is therefore invalid. The judge’s order enjoined the State from collecting or assessing the tax. The State appealed the Court’s ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State gave notice of its right to collect the tax pending the outcome of its appeal but took no affirmative action to enforce that right. On June 5, 2009, the Court of Appeals for the Third District (Austin) affirmed the District Court’s judgment that the Sexually Oriented Business (“S.O.B.”) Fee violated the First Amendment to the U.S. Constitution but on August 26, 2011, the Texas Supreme Court reversed the judgment of the Court of Appeals, ruling that the SOB Fee does not violate the First Amendment to the U.S. Constitution, and remanded the case to the District Court to determine whether the fee violates the Texas Constitution.

The TEA appealed the Texas Supreme Court's decision to the U.S. Supreme Court (regarding the constitutionality of the fee under the First Amendment of the U.S. Constitution), but the U.S. Supreme Court denied the appeal on January 23, 2012. The case will now resume in the District Court in Travis County on the remaining issues raised by the TEA that were not previously decided by the trial court. The Company has not made any payments of these taxes since the first quarter of 2009 and plans not to make any such payments while the case is pending in the courts. However, the Company will continue to accrue and expense the potential tax liability on our consolidated financial statements, so any ultimate negative ruling will not have any effect on our income statement and will only affect our balance sheet. If the decision is

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11. COMMITMENTS AND CONTINGENCIES - continued

ultimately found in our favor, as we believe it will be, then we will have a one-time gain of the entire amount previously expensed.

The Company paid the tax for the first five quarters and expensed the tax in the consolidated financial statements, except for two locations in Dallas where the taxes have not been paid, but the Company is accruing and expensing the liability. For the subsequent quarters, as a result of the Third Court's decision, the Company accrued the fee, but did not pay the State. As of March 31, 2012, the Company has approximately \$8.4 million in accrued liabilities for this tax. Patron tax expense amounted to \$1.5 million for each of the six months ended March 31, 2012 and 2011. The Company has paid more than \$2 million to the State of Texas since the inception of the tax. The Company's Texas clubs have filed a separate lawsuit against the State in which we raise additional challenges to the statute imposing the fee or tax and demand repayment of the taxes. The courts have not yet addressed these additional claims. If the State's appeal ultimately fails or we are successful in the remaining litigation, the Company's current amount paid under protest would be repaid or applied to future admission tax and other Texas state tax liabilities.

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

In September 2011, the Company and its CEO were sued in District Court in Travis County Texas by a shareholder for damages as a result of the plaintiff's alleged inability to sell shares on the open market due to restrictive legends which the plaintiff alleges that the defendants failed to remove in a timely manner. On March 21, 2012, the Company agreed to a settlement in the case. The terms of the settlement provide for the payment of \$2,650,000 to the plaintiff and a full and complete release of the Company and the Company's CEO. The settlement amount will be paid with approximately \$850,000 in insurance proceeds and a cash payment from the Company of approximately \$1.8 million. No admission of liability was made by the Company. The parties completed the settlement documents and an Order of Dismissal was entered into on April 19, 2012. The \$1.8 million has been expensed in the quarter ended March 31, 2012.

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

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11. COMMITMENTS AND CONTINGENCIES - continued

Two securities class action lawsuits were filed against us in June 2011 in the U.S. District Court for the Southern District of Florida. The plaintiffs claim to represent recipients of text messages. The complaints allege that we violated the Telephone Consumer Protection Act (the "TCPA") by sending unsolicited advertisements by text message to the plaintiff and other recipients nationwide during the four-year period preceding the lawsuit without the prior express invitation or permission of the recipients. On January 20, 2012, an amended complaint was filed in one of the cases to add one of our subsidiaries as a defendant. In October 2011, we filed a declaratory judgment action in U.S. District Court for the Southern District of Texas (Houston division) against our general liability insurance carrier to provide coverage for these two TCPA cases. On January 24, 2012, the presiding judge issued an order dismissing the case against our carrier. Therefore, there is no insurance coverage for this case. The Company denies any liability in this matter and is vigorously defending the allegations.

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

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

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

FORWARD LOOKING STATEMENT AND INFORMATION

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

GENERAL

We operate in three businesses in the adult entertainment industry:

1. We own and/or operate upscale adult nightclubs serving primarily businessmen and professionals. Our nightclubs offer live adult entertainment, restaurant and bar operations. Through our subsidiaries, we currently own and/or operate a total of twenty-four adult nightclubs that offer live adult entertainment, restaurant and bar operations. Eight of our clubs operate under the name "Rick's Cabaret"; four operate under the name "Club Onyx", upscale venues that welcome all customers but cater especially to urban professionals, businessmen and professional athletes; six operate under the name "XTC Cabaret"; one club operates as "Tootsie's Cabaret", one operates as "Cabaret North" and one operates as "Downtown Cabaret", one operates as "Cabaret East", one operates as "Silver City Cabaret" and one operates as "Temptations". Additionally, we own a 40% interest in "The Mansion" nightclub in Austin, Texas. Our nightclubs are in Houston, Austin, San Antonio, Dallas and Fort Worth, Texas; Charlotte, North Carolina; Minneapolis, Minnesota; New York, New York; Miami Gardens, Florida; Philadelphia, Pennsylvania and Indianapolis, Indiana. No sexual contact is permitted at any of our locations.
2. We have Internet activities.
 - a) We currently own two adult Internet membership Web sites at www.CouplesTouch.com and www.xxxpassword.com. We acquire xxxpassword.com site content from wholesalers.

- b) We operate an online auction site www.NaughtyBids.com. This site provides our customers with the opportunity to purchase adult products and services in an auction format. We earn revenues by charging fees for each transaction conducted on the automated site.
3. We operate a media division, including the leading trade magazine serving the multi-billion dollar adult nightclubs industry. This division also includes two industry trade shows, two other industry trade publications and more than 25 industry websites.

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

CRITICAL ACCOUNTING POLICIES

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

Accounts and Notes Receivable

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

Inventories

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

Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation and amortization are made using

straight-line rates over the estimated useful lives of the related assets and the shorter of useful lives or terms of the applicable leases for leasehold improvements. Buildings have estimated useful lives ranging from 29 to 40 years. Furniture, equipment and leasehold improvements have estimated useful lives between five and 40 years. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are charged or credited in the accompanying consolidated statement of income of the respective period.

Goodwill and Intangible Assets

FASB ASC 350, *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 the Company's goodwill and intangible assets relate to the nightclub segment, except for \$567,000 related to the media segment. Definite lived intangible assets are amortized on a straight-line basis over their estimated lives. Fully amortized assets are written-off against accumulated amortization.

Impairment of Long-Lived Assets

The Company reviews property and equipment and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of its carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets with definite lives are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair value. Assets are grouped at the lowest level for which there are identifiable cash flows, principally at the club level, when assessing impairment. Cash flows for our club assets are identified at the individual club level. The Company's annual evaluation was performed as of September 30, 2011, based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. We determined that there is no net asset impairment at September 30, 2011.

Fair Value of Financial Instruments

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

Derivative Financial Instruments

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

Revenue Recognition

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

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

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

Sales and Liquor Taxes

The Company recognizes sales and liquor taxes paid as revenues and an equal expense in accordance with FASB ASC 605, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement*. Total sales and liquor taxes aggregated \$3.5 million and \$3.0 million for the six months ended March 31, 2012 and 2011, respectively.

Advertising and Marketing

Advertising and marketing expenses are primarily comprised of costs related to public advertisements and giveaways, which are used for promotional purposes. Advertising and marketing expenses are expensed as incurred and are included in operating expenses in the accompanying consolidated statements of income.

Income Taxes

Deferred income taxes are determined using the liability method in accordance with FASB ASC 740, *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.

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

Put Options

In certain situations, the Company issues restricted common shares as partial consideration for acquisitions of certain businesses or assets. Pursuant to the terms and conditions of the governing acquisition agreements, the holder of such shares has the right, but not the obligation, to put a fixed

number of the shares on a monthly basis back to the Company at a fixed price per share. The Company may elect during any given month to either buy the monthly shares or, if management elects not to do so, the holder can sell the monthly shares in the open market, and any deficiency between the amount which the holder receives from the sale of the monthly shares and the value of shares will be paid by the Company. The Company has accounted for these shares in accordance with the guidance established by FASB ASC 480, *Distinguishing Liabilities From Equity*, as a reclassification of the value of the shares from permanent to temporary equity. As the shares become due, the Company transfers the value of the shares back to permanent equity, less any amount paid to the holder. Also see “Derivative Financial Instruments” above.

Earnings (Loss) Per Common Share

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

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

Stock Options

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

The stock option compensation costs recognized for the quarters ended March 31, 2012 and 2011 were \$12,381 and zero, respectively, and were \$20,635 and zero, respectively, for the six months then ended. There were no stock options grants nor exercises for the quarters ended March 31, 2012 and 2011.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2012 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2011

For the three months ended March 31, 2012, we had consolidated total revenues of \$25.4 million compared to consolidated total revenues of \$21.6 million for the three months ended March 31, 2011, an increase of \$3.8 million or 17.8%. The increase in total revenues was primarily attributable to clubs acquired during the last year and an increase in same-store sales. Total revenues for same-location-same-period of club operations increased to \$22.6 million for the three months ended March 31, 2012 from \$21.0 million for the same period ended March 31, 2011. This increase is principally due to our pricing plans and our marketing programs which increased customer count. The increase in percentage of alcoholic beverage sales and decrease in percentage of service revenues is due to the addition of the Silver City acquisition and conversion of Rick’s Cabaret DFW Airport to a liquor establishment in 2012.

Following is a comparison of the Company's income statement for the quarters ended March 31, 2012 and 2011 with percentages compared to total revenue:

(in thousands)	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Sales of alcoholic beverages	\$ 10,406	40.9%	\$ 8,405	38.9%
Sales of food and merchandise	2,335	9.2%	1,879	8.7%
Service Revenues	11,281	44.4%	10,076	46.7%
Internet Revenues	100	0.4%	120	0.6%
Media	176	0.7%	192	0.9%
Other	1,116	4.4%	907	4.2%
Total Revenues	<u>25,414</u>	100.0%	<u>21,579</u>	100.0%
Cost of Goods Sold	3,390	13.3%	2,665	12.3%
Salaries & Wages	5,204	20.5%	4,460	20.7%
Stock-based Compensation	12	0.0%	-	0.0%
Taxes and permits	3,953	15.6%	3,306	15.3%
Charge card fees	373	1.5%	321	1.5%
Rent	721	2.8%	773	3.6%
Legal & professional	741	2.9%	472	2.2%
Advertising and marketing	1,040	4.1%	842	3.9%
Insurance	347	1.4%	280	1.3%
Utilities	406	1.6%	380	1.8%
Depreciation and amortization	1,190	4.7%	949	4.4%
Settlement of lawsuit	1,831	7.2%	-	0.0%
Other	1,750	6.9%	1,541	7.1%
Total operating expenses	<u>20,958</u>	82.5%	<u>15,989</u>	74.1%
Operating income	4,456	17.5%	5,590	25.9%
Interest income	1	0.0%	44	0.2%
Interest expense	(1,106)	-4.4%	(1,110)	-5.1%
Gain (loss) on change in fair value of derivative instruments	40	0.2%	333	1.5%
Income from continuing operations before income taxes	<u>\$ 3,391</u>	13.3%	<u>\$ 4,857</u>	22.5%

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

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

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding, media postage and internet traffic purchases and webmaster payouts. Media cost of goods amounted to 38.1% and 29.8% for the quarters ended March 31, 2012 and 2011, respectively. The cost of goods sold for the club operations for the three months ended March 31, 2012 was 13.3% compared to 12.3% for the three months ended March 31, 2011. The cost of goods sold from our internet operations for the three months ended March 31, 2012 was 0.3% compared to 2.2% for the three months ended March 31, 2011. The cost of goods sold for same-location-same-period of club operations for the three months ended March 31, 2012 was 13.0%, compared to 12.4% for the same period ended March 31, 2011. The increase in the cost of goods for 2012 is principally a result of higher-end ("bottle sales") revenues during 2012 which carry a lower gross margin.

The increase in payroll and related costs, stated as “Salaries & Wages” above, was primarily due to the addition of the new clubs during 2011. Payroll for same-location-same-period of club operations was \$3.8 million compared to \$3.6 million for the three months ended March 31, 2012 and 2011, respectively. Management currently believes that its labor and management staff levels are appropriate.

The decrease in rent expense and its percentage to revenues is due to the Company purchasing property in its recent club acquisitions and due to the purchase of the property at an existing club in January 2012.

The increase in legal and professional expense is principally due to a continuing labor lawsuit in New York which was more active in 2012, along with approximately \$84,000 in legal costs related to the two acquisitions closed in the six months ended March 31, 2012.

The settlement of lawsuit expense is explained in the Commitments and Contingencies note to the consolidated financial statements.

The decrease in interest expense as a percentage of revenues was attributable to our continuing reduction of principal balances.

Income taxes, as a percentage of income before taxes was 33.4% and 32.3% for the quarters ended March 31, 2012 and 2011, respectively.

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

Operating income (exclusive of corporate overhead) for same-location-same-period of club operations was \$7.2 million and \$6.6 million for the three months ended March 31, 2012 and 2011, respectively.

Our Media Division lost approximately \$84,000 before income taxes for the quarter ended March 31, 2012 compared to a loss of approximately \$47,000 in the 2011 quarter. This division derives a large percentage of its revenue and profits in the last fiscal quarter of the year, during its annual Expo convention. As the economy improves, we believe the Media Division will become profitable as we control costs and increase marketing revenues.

Our “operating margin”, the percentage of operating income to total revenues, was 17.5% and 25.9% for the quarters ended March 31, 2012 and 2011, respectively. The 2012 quarter was dramatically affected by the settlement of lawsuit of \$1.8 million. Without that expense, the 2012 quarter operating margin would have been 24.7%.

Adjusted EBITDA for the three months ended March 31, 2012 and 2011 was \$5.6 million and \$6.9 million, respectively.

Adjusted EBITDA is a financial statement measure that was not derived in accordance with GAAP. We use adjusted EBITDA (earnings before interest expense, income taxes, depreciation, amortization and impairment charges) as a non-GAAP performance measure. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation, amortization and impairment charges. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for Federal, state and local taxes which have considerable variation between domestic jurisdictions. Also, we exclude interest cost in our calculation of adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our acquisitions of nightclubs. Reconciliations from net income to adjusted EBITDA are provided below for the quarters ended March 31:

(in thousands)	<u>2012</u>	<u>2011</u>
Income from continuing operations	\$ 2,257	\$ 3,284
Net income from noncontrolling interests	(53)	(53)
Income taxes	1,134	1,573
Interest expense	1,106	1,110
Depreciation and amortization	<u>1,190</u>	<u>949</u>
Adjusted EBITDA	<u>\$ 5,634</u>	<u>\$ 6,863</u>

Without the settlement of lawsuit in 2012, EBITDA would have been \$7.5 million.

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

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2012 AS COMPARED TO THE SIX MONTHS ENDED MARCH 31, 2011

For the six months ended March 31, 2012, we had consolidated total revenues of \$47.4 million compared to consolidated total revenues of \$41.2 million for the six months ended March 31, 2011, an increase of \$6.2 million or 15.0%. The increase in total revenues was primarily attributable to new club acquisitions and an increase in total revenues for same-location-same-period of club continuing operations of \$2.9 million to \$43.2 million for the six months ended March 31, 2012 from \$40.3 million for the same period ended March 31, 2011. This increase is principally due to our pricing plans and our marketing programs which increased customer count. The increase in percentage of alcoholic beverage sales and decrease in service revenues is due to the addition of the Silver City acquisition and conversion of Rick's Cabaret DFW Airport to a liquor establishment in 2012.

Following is a comparison of the Company's income statement for the six months ended March 31, 2012 and 2011 with percentages compared to total revenue:

(in thousands)	2012	%	2011	%
Sales of alcoholic beverages	\$ 19,322	40.7%	\$ 16,163	39.2%
Sales of food and merchandise	4,333	9.1%	3,578	8.7%
Service Revenues	21,167	44.6%	19,084	46.3%
Internet Revenues	201	0.4%	245	0.6%
Media	359	0.8%	409	1.0%
Other	2,050	4.3%	1,768	4.3%
Total Revenues	<u>47,432</u>	100.0%	<u>41,247</u>	100.0%
Cost of Goods Sold	6,322	13.3%	5,083	12.3%
Salaries & Wages	10,130	21.4%	8,821	21.4%
Stock-based Compensation	21	0.0%	-	0.0%
Taxes and permits	7,404	15.6%	6,221	15.1%
Charge card fees	681	1.4%	642	1.6%
Rent	1,424	3.0%	1,549	3.8%
Legal & professional	1,441	3.0%	912	2.2%
Advertising and marketing	2,035	4.3%	1,813	4.4%
Insurance	638	1.3%	549	1.3%
Utilities	807	1.7%	745	1.8%
Depreciation and amortization	2,310	4.9%	1,854	4.5%
Settlement of lawsuit	1,831	3.9%	-	0.0%
Other	3,568	7.5%	3,021	7.3%
Total operating expenses	<u>38,612</u>	81.4%	<u>31,210</u>	75.7%
Operating income	8,820	18.6%	10,037	24.3%
Interest income	3	0.0%	56	0.1%
Interest expense	(2,079)	-4.4%	(2,234)	-5.4%
Gain (loss) on change in fair value of derivative instruments	138	0.3%	481	1.2%
Income from continuing operations before income taxes	<u>\$ 6,882</u>	14.5%	<u>\$ 8,340</u>	20.2%

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

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

Cost of goods sold includes cost of alcoholic and non-alcoholic beverages, food, cigars and cigarettes, merchandise, media printing/binding, media postage and internet traffic purchases and webmaster payouts. Media cost of goods amounted to 32.7% and 26.4% for the six months ended March 31, 2012 and 2009, respectively. The cost of goods sold for the club operations for the six months ended March 31, 2012 was 13.2% compared to 12.3% for the six months ended March 31, 2011. The cost of goods sold from our internet operations for the six months ended March 31, 2012 was 1.2% compared to 2.2% for the six months ended March 31, 2011. The cost of goods sold for same-location-same-period of club operations for the six months ended March 31, 2012 was 13.1%, compared to 12.3% for the same period ended March 31, 2011. The increase in the cost of goods for 2012 is principally a result of higher-end ("bottle sales") revenues during 2012 which carry less gross margin.

Payroll for same-location-same-period of club operations increased to \$7.5 million for the six months ended March 31, 2012 from \$7.2 million for the same period ended March 31, 2011. Management currently believes that its labor and management staff levels are appropriate.

The decrease in rent expense and its percentage to revenues is due to the Company purchasing property in its recent club acquisitions and due to the purchase of the property at an existing club in January 2012.

The increase in legal and professional expense is principally due to a continuing labor lawsuit in New York which was more active in 2012.

The increase in depreciation is principally due to the new clubs acquired.

The decrease in interest expense as a percentage of revenues was attributable to our continuing reduction of principal balances.

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

Income taxes, as a percentage of income before taxes was 34.0% and 32.5% for the six months ended March 31, 2012 and 2011, respectively.

The decrease in net income was primarily due to the settlement of lawsuit in 2012. Operating income (exclusive of corporate overhead) for same-location-same-period of club operations increased to \$13.1 million for the six months ended March 31, 2012 from \$11.8 million for same period ended March 31, 2011, or by 11.8%.

Our Media Division lost approximately \$173,000 before income taxes for the six months ended March 31, 2012 compared to a loss of approximately \$123,000 in the six months ended March 31, 2011. This division derives a large percentage of its revenue and profits in the last fiscal quarter of the year, during its annual Expo convention. As the economy improves, we believe the Media Division will become profitable as we control costs and increase marketing revenues.

Our "operating margin", the percentage of operating income to total revenues, was 18.6% and 24.3% for the six months ended March 31, 2012 and 2011, respectively. The 2012 period was dramatically affected by the settlement of lawsuit of \$1.8 million. Without that expense, the 2012 period operating margin would have been 22.5%.

Adjusted EBITDA for the six months ended March 31, 2012 and 2011 was \$11.2 million and \$12.3 million, respectively.

Adjusted EBITDA is a financial statement measure that was not derived in accordance with GAAP. We use adjusted EBITDA (earnings before interest expense, income taxes, depreciation, amortization and impairment charges) as a non-GAAP performance measure. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation, amortization and impairment charges. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for Federal, state and local taxes which have considerable variation between domestic jurisdictions. Also, we exclude interest cost in our calculation of adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our acquisitions of nightclubs. Reconciliations from net income to adjusted EBITDA are provided below for the six months ended March 31:

(in thousands)	<u>2012</u>	<u>2011</u>
Income from continuing operations	\$ 4,540	\$ 5,631
Net income from noncontrolling interests	(106)	(107)
Income taxes	2,342	2,709
Interest expense	2,079	2,234
Depreciation and amortization	<u>2,310</u>	<u>1,854</u>
Adjusted EBITDA	<u>\$ 11,165</u>	<u>\$ 12,321</u>

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

LIQUIDITY AND CAPITAL RESOURCES

Working Capital and Cash Flows

At March 31, 2012, we had working capital (deficit) of approximately \$(1.9 million) compared to approximately \$2.0 million at September 30, 2011. The decrease is principally due to the purchase of two nightclubs and other property and equipment amounting to \$6.2 million during the six months ended March 31, 2012, payments on long-term debt, purchase of put options and related derivatives during the period and the accrual of the lawsuit settlement of \$1.8 million.

Net cash provided by operating activities in the six months ended March 31, 2012 was \$12.0 million compared to \$8.5 million for the six months ended March 31, 2011. The increase in cash provided by operating activities was primarily due to the increase in accruals for the six months ended March 31, 2012.

We used \$6.2 million of cash in investing activities during the six months ended March 31, 2012 compared to \$5.1 million during the six months ended March 31, 2011. The increase was principally due to the acquisition of property and equipment, including real estate in 2012. Cash of \$3.8 million was used by financing activities during the six months ended March 31, 2012 compared to \$4.6 million cash used during the six months ended March 31, 2011. The decrease was primarily due to the \$900,000 exercise of warrants in 2012.

Following is a reconciliation of our additions to property and equipment for the six months ended March 31, 2012 and 2011:

(in thousands)	Six Months Ended	
	<u>March 31,</u>	
	<u>2012</u>	<u>2011</u>
Acquisition of real estate	\$ 5,900	\$ 2,426
Purchase of aircraft	3,218	-
Capital expenditures funded by debt	(6,236)	-
New capital expenditure in new clubs	333	-
Maintenance capital expenditures	<u>1,534</u>	<u>1,054</u>
Total capital expenditures in consolidated statement of cash flows	<u>\$ 4,749</u>	<u>\$ 3,480</u>

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

Put Options

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

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

The maximum obligation that could be owed if our stock were valued at zero is \$1.6 million at March 31, 2012. If we are required to buy back any of these put options, the buy-back transaction will be purely a balance sheet transaction, affecting only Temporary Equity or Derivative Liability and Stockholders’ Equity and will have no income statement effect. The only income statement effect from these put options is the “mark to market” valuation quarterly of the derivative liability.

Following is a schedule of the annual obligation (after the renegotiation) we would have if our stock price remains in the future at the closing market price on March 31, 2012 of \$9.33 per share, of which there can be no assurance: (This includes the derivative financial instruments recognized in our balance sheet at March 31, 2012.)

For the Year Ended September 30:	(in thousands)	
2012	\$	879
2013		124
Total	\$	<u>1,003</u>

Each \$1.00 per share movement of our stock price has an aggregate effect of \$69,000 on the total obligation.

Other Liquidity and Capital Resources

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

On September 29, 2008, our Board of Directors authorized us to repurchase up to \$5,000,000 worth of our common stock in the open market. During the six months ended March 31, 2012 and 2011, 27,240 (\$175,613) and zero shares, respectively, were purchased under this program.

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

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

IMPACT OF INFLATION

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

SEASONALITY

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

GROWTH STRATEGY

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

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

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

to our current affiliates to better promote our Internet sites, while actively seeking new affiliates to send traffic to our Internet sites.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of March 31, 2012, there were no material changes to the information provided in Item 7A of the Company's Annual Report on Form 10-K for fiscal year ended September 30, 2011.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2012 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Beginning January 1, 2008, our Texas clubs became subject to a new state law requiring each club to collect and pay a \$5 surcharge for every club visitor. A lawsuit was filed by the Texas Entertainment Association ("TEA"), an organization to which we are a member, alleging the fee amounts to be an unconstitutional tax. On March 28, 2008, a State District Court Judge in Travis County, Texas ruled that the new state law violates the First Amendment to the United States Constitution and is therefore invalid. The judge's order enjoined the State from collecting or assessing the tax. The State appealed the Court's ruling. In Texas, when cities or the State give notice of appeal, it supersedes and suspends the judgment, including the injunction. Therefore, the judgment of the District Court cannot be enforced until the appeals are completed. Given the suspension of the judgment, the State gave notice of its right to collect the tax pending the outcome of its appeal but took no affirmative action to enforce that right. On June 5, 2009, the Court of Appeals for the Third District (Austin) affirmed the District Court's judgment that the Sexually Oriented Business ("S.O.B.") Fee violated the First Amendment to the U.S. Constitution but on August 26, 2011, the Texas Supreme Court reversed the judgment of the Court of Appeals, ruling that the SOB Fee does not violate the First Amendment to the U.S. Constitution, and remanded the case to the District Court to determine whether the fee violates the Texas Constitution.

The TEA appealed the Texas Supreme Court's decision to the U.S. Supreme Court (regarding the constitutionality of the fee under the First Amendment of the U.S. Constitution), but the U.S. Supreme Court denied the appeal on January 23, 2012. The case will now resume in the District Court in Travis County on the remaining issues raised by the TEA that were not previously decided by the trial court.

We have not made any payments of these taxes since the first quarter of 2009 and plan not to make any such payments while the case is pending in the courts. However, we will continue to accrue and expense the potential tax liability on our financial statements, so any ultimate negative ruling will not have any effect on our income statement and will only affect our balance sheet. If the decision is ultimately found in our favor, as we believe it will be, then we will have a one-time gain of the entire amount previously expensed.

We have paid the tax under protest during all four quarters of 2008 and the first quarter of 2009 and expensed the tax in the consolidated financial statements, except for two locations in Dallas where the taxes have not been paid, but we are accruing and expensing the liability. For the subsequent quarters, as a result of the Third Court's decision, we accrued the fee, but did not pay the State. As of March 31, 2012, we have approximately \$8.4 million in accrued liabilities for this tax. Patron tax expense amounted to \$826,000 and 796,000 for the three months ended March 31, 2012 and 2011, respectively. We have paid more than \$2 million to the State of Texas since the inception of the tax. Our Texas clubs have filed a separate lawsuit against the State in which we raise additional challenges to the statute imposing the fee or tax and demand repayment of the taxes. The courts have not yet addressed these additional claims. If the State's appeal ultimately fails or we are successful in the remaining litigation, our current amount paid under protest would be repaid or applied to future admission tax and other Texas state tax liabilities.

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

In September 2011, the Company and its CEO were sued in District Court in Travis County Texas by a shareholder for damages as a result of the plaintiff's alleged inability to sell shares on the open market due to restrictive legends which the plaintiff alleges that the defendants failed to remove in a timely manner. On March 21, 2012, the Company agreed to a settlement in the case. The terms of the settlement provide for the payment of \$2,650,000 to the plaintiff and a full and complete release of the Company and the Company's CEO. The settlement amount will be paid with approximately \$850,000 in insurance proceeds and a cash payment from the Company of approximately \$1.8 million. No admission of liability was made by the Company. The parties completed the settlement documents and an Order of Dismissal was entered into on April 19, 2012. The \$1.8 million has been expensed in the quarter ended March 31, 2012.

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

Two securities class action lawsuits were filed against us in June 2011 in the U.S. District Court for the Southern District of Florida. The plaintiffs claim to represent recipients of text messages. The complaints allege that we violated the Telephone Consumer Protection Act (the “TCPA”) by sending unsolicited advertisements by text message to the plaintiff and other recipients nationwide during the four-year period preceding the lawsuit without the prior express invitation or permission of the recipients. On January 20, 2012, an amended complaint was filed in one of the cases to add one of our subsidiaries as a defendant. In October 2011, we filed a declaratory judgment action in U.S. District Court for the Southern District of Texas (Houston division) against our general liability insurance carrier to provide coverage for these two TCPA cases. On January 24, 2012, the presiding judge issued an order dismissing the case against our carrier. Therefore, there is no insurance coverage for this case. The Company denies any liability in this matter and is vigorously defending the allegations.

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

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended September 30, 2011, as such factors could materially affect the Company’s business, financial condition or future results. In the three months ended March 31, 2012, there were no material changes to the risk factors disclosed in the Company’s 2011 Annual Report on Form 10-K. The risks described in the Annual Report on Form 10-K are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company deems to be immaterial, also may have a material adverse impact on the Company’s business, financial condition or results of operations.

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

During the three months ended March 31, 2012, we purchased 33,000 shares of common stock from put option holders at prices ranging from \$8.29 to \$10.04 per share. Following is a summary of our purchases by month:

Period:	(a)	(b)	(c)	(d)
Month Ending	Total Number of Shares (or Units) Purchased	Average Price Paid per Share	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
January 31, 2012	11,000	\$8.29	-	\$2,890,057
February 28, 2012	11,000	\$10.04	-	\$2,890,057
March 31, 2012	11,000	\$9.37	-	\$2,890,057
Total for the three months ended				

March 31, 2012	33,000	\$9.23	-	\$2,890,057
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Item 6. Exhibits.

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

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

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

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

SIGNATURES

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

RICK'S CABARET INTERNATIONAL, INC.

Date: May 10, 2012

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

Date: May 10, 2012

By: /s/ Phillip K. Marshall
Phillip K. Marshall
Chief Financial Officer and Principal Accounting Officer

SARBANES-OXLEY ACT OF 2002

I, Eric S. Langan, Chief Executive Officer and President of Rick's Cabaret International, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rick's Cabaret International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's independent registered public accounting firm and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: May 10, 2012

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

EXHIBIT 31.2 CERTIFICATION PURSUANT TO SECTION 302 OF THE

SARBANES-OXLEY ACT OF 2002

I, Phillip K. Marshall, Chief Financial Officer of Rick's Cabaret International, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rick's Cabaret International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's independent registered public accounting firm and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

By: /s/ Phillip K. Marshall

Date: May 10, 2012

Phillip K. Marshall
Chief Financial Officer and Principal Accounting Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Rick’s Cabaret International, Inc. (the “Company”) on Form 10-Q for the fiscal period ended March 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on their knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of and for the periods covered in the Report.

/s/ Eric S. Langan
Eric S. Langan
Chief Executive Officer
May 10, 2012

/s/ Phillip K. Marshall
Phillip K. Marshall
Chief Financial Officer
May 10, 2012

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Rick’s Cabaret International, Inc. and will be retained by Rick’s Cabaret International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.