RICKS CABARET INTERNATIONAL INC
Form 10QSB
February 14, 2006

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

FORM 10-QSB

[X] Quarterly report pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934; For the quarterly period ended: December 31, 2005

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-26958

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

On February 8, 2006, there were 4,376,148 shares of common stock, $.01 par value, outstanding.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

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

	12/31/05 (UNAUDITED)	9/30/05 (AUDITED)
CURRENT ASSETS:		
Cash and cash equivalents	$ 561,421	$ 480,330
Accounts receivable		
Trade	185,690	310,692
Other, net	130,261	118,872
Marketable securities	28,919	28,919
Inventories	244,508	257,626
Prepaid expenses and other current assets	97,243	87,991
Total current assets	1,248,042	1,284,430
PROPERTY AND EQUIPMENT:		
Buildings, land and leasehold improvements	13,477,408	13,454,990
Furniture and equipment	3,315,850	3,195,233
	16,793,258	16,650,223
Accumulated depreciation	(3,460,362)	(3,233,468)
Total property and equipment, net	13,332,896	13,416,755
OTHER ASSETS:		

Goodwill and indefinite lived intangibles	9,836,560	9,836,560
Definite lived intangibles, net	120,675	126,262
Other	345,026	365,011
Total other assets	10,302,261	10,327,833
Total assets	$24,883,199	$25,029,018

See accompanying notes to consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	12/31/05 (UNAUDITED)	9/30/05 (AUDITED)
CURRENT LIABILITIES:		
Accounts payable - trade	$ 574,623	$ 1,034,508
Accrued liabilities	824,927	852,865
Current portion of long-term debt	1,358,270	1,349,894
Line of credit	85,233	94,888
Total current liabilities	2,843,053	3,332,155
Other long-term liabilities	226,161	193,648
Long-term debt less current portion	11,662,403	11,896,942
Total liabilities	14,731,617	15,422,745
COMMITMENTS AND CONTINGENCIES	---	---
MINORITY INTERESTS	29,950	31,337
STOCKHOLDERS' EQUITY:		
Preferred stock, $.10 par, 1,000,000 shares authorized; none outstanding	---	---
Common stock, $.01 par, 15,000,000 shares authorized; 5,230,678 and 5,220,678 shares issued	52,307	52,207
Additional paid-in capital	13,025,767	13,004,567
Accumulated other comprehensive income	15,572	15,572
Accumulated deficit	(1,678,234)	(2,203,630)
Less 908,530 shares of common stock held in treasury, at cost	(1,293,780)	(1,293,780)
Total stockholders' equity	10,121,632	9,574,936
Total liabilities and stockholders' equity	$24,883,199	$25,029,018

See accompanying notes to consolidated financial statements.

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

	FOR THE THREE MONTHS ENDED DECEMBER 31, 2005 (UNAUDITED)	2004 (UNAUDITED)
Continuing Operations:		
Revenues:		
Sales of alcoholic beverages	$ 2,169,995	$ 1,210,276
Sales of food and merchandise	638,724	377,102
Service revenues	2,594,801	1,505,952
Internet revenues	209,157	187,231
Other	167,058	51,650
Total revenues	5,779,735	3,332,211
Operating expenses:		
Cost of goods sold	709,237	397,770
Salaries and wages	1,669,711	1,207,948
Other general and administrative:		
Taxes and permits	695,316	444,591
Charge card fees	102,236	59,687
Rent	296,846	71,949
Legal and professional	150,657	167,326
Advertising and marketing	290,668	141,807
Depreciation and amortization	232,482	126,789
Other	848,472	559,117
Total operating expenses	4,995,625	3,176,984
Income from continuing operations	784,110	155,227
Other income (expense):		
Interest income	6,436	9,188
Interest expense	(263,052)	(89,115)
Minority interests	1,387	463
Other	(3,485)	(780)
Net income from continuing operations	525,396	74,983
Discontinued operations:		
Loss from discontinued operations	--	(81,468)
Net income (loss)	$ 525,396	$ (6,485)
Basic and diluted earnings (loss) per share:		
Income from continuing operations	$ 0.12	$ 0.02
Loss from discontinued operations	0.00	(0.02)
Net income (loss), basic	$ 0.12	$ 0.00
Net income (loss), diluted	$ 0.11	$ 0.00
Weighted average number of common shares outstanding:		

Basic	4,321,061	3,700,148
Diluted	4,599,779	3,700,148

Comprehensive income for the three months ended December 31, 2005 and 2004 was $525,396 and ($50,975), respectively. This includes the changes in available-for-sale securities and net income (loss).

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED DECEMBER 31,	
	2005 (UNAUDITED)	2004 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (loss) from continuing operations	$ 525,396	$ 74,983
Adjustments to reconcile income (loss) from continuing operations to cash provided by operating activities:		
Depreciation and amortization	232,481	126,789
Issuance of warrants	8,889	---
Minority interests	(1,387)	(463)
Changes in operating assets and liabilities	(337,831)	(240,332)
Cash provided by (used in) operating activities	427,548	(39,023)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(143,035)	(112,087)
Payments for notes receivable	19,985	4,495
Cash used in investing activities	(123,050)	(107,592)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	21,300	---
Proceeds from long-term debt	---	3,802,000
Payments on long-term debt	(244,707)	(382,302)
Cash provided by (used in) financing activities	(223,407)	3,419,698
Net cash used in discontinued operations	---	(116,369)
NET INCREASE IN CASH	81,091	3,156,714
CASH AT BEGINNING OF PERIOD	480,330	275,243
CASH AT END OF PERIOD	$ 561,421	$ 3,431,957
CASH PAID DURING PERIOD FOR:		
Interest	$ 271,826	$ 81,848

Non-cash transactions:
During the quarter ended December 31, 2004, the Company purchased a 9,000 square foot office building for $516,499, payable with $90,039 cash at closing and a fifteen-year promissory note, bearing interest rate at 7%, in the amount of $426,460.

See accompanying notes to consolidated financial statements.

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RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. 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 financial statements for the year ended September 30, 2005 included in the Company's Annual Report on Form 10-KSB 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-KSB. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the three months ended December 31, 2005 are not necessarily indicative of the results that may be expected for the year ending September 30, 2006.

2. STOCK OPTIONS

The Company accounts for its stock options under the recognition and measurement principles of Accounting Principles Board ("APB") opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standard ("SFAS") No. 123, Accounting for Stock Based Compensation, to stock-based employee compensation. The following presents pro forma net income (loss) and per share data as if a fair value accounting method had been used to account for stock-based compensation:

	FOR THE THREE MONTHS ENDED DECEMBER 31, 2005	2004
Net income (loss), as reported	$ 525,396	$ (6,485)
Less total stock-based employee compensation expense determined under the fair value based method for all awards	(135,630)	(128,393)
Pro forma net income (loss)	$ 389,766	$(134,878)
Earnings (loss) per share:		
Basic - as reported	$ 0.12	$ 0.00

Diluted - as reported	$ 0.11	$ 0.00
Basic - pro forma	$ 0.09	$ (0.04)
Diluted - pro forma	$ 0.08	$ (0.04)

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

3. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

4. COMPREHENSIVE INCOME

The Company reports comprehensive income in accordance with the provisions of SFAS No. 130, Reporting Comprehensive Income. Comprehensive income consists of net income (loss) and gains (losses) on available-for-sale marketable securities.

5. COMMON STOCK

On October 11, 2005, 10,000 stock options were exercised by one of the Company's directors for proceeds of $21,300.

6. SEGMENT INFORMATION

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

	FOR THE THREE MONTHS ENDED DECEMBER 31, 2005	2004
REVENUES		
Club operations	$ 5,568,716	$ 3,144,980
Internet websites	211,019	187,231
Discontinued operations	---	336,646
	$ 5,779,735	$ 3,668,857
NET INCOME (LOSS)		
Club operations	$ 1,022,448	$ 631,156
Internet websites	48,849	31,186
Corporate expenses	(545,901)	(587,359)
Discontinued operations	---	(81,468)
	$ 525,396	$ (6,485)

RICK'S CABARET INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

7. REVENUE RECOGNITION

The Company recognizes revenue from the sale of alcoholic beverages, food and merchandise, and services at the point-of-sale upon receipt of cash, check, or credit card charge. This includes daily, annual and lifetime VIP memberships.

Under Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, membership revenue should be deferred and recognized over the estimated membership usage period. Management estimates that the weighted average useful lives for memberships are 12 and 24 months for annual and lifetime memberships, respectively. The Company does not track membership usage by type of membership, however it believes these lives are appropriate and conservative, based on management's knowledge of its client base and membership usage at the clubs.

If the Company had deferred membership revenue and recognized it based on the lives above, the impact on revenue and net income (loss) recognized would have been an increase of approximately $0 and $6,000 for the three months ended December 31, 2005 and 2004, respectively. This would have also resulted in a deferred revenue balance of approximately $0 and $6,300 as of December 31, 2005 and 2004, respectively. Management does not believe the impact of this difference in accounting treatment is material to the Company's annual and quarterly financial statements. However, the Company began to record revenues in such manner effective January 1, 2004, and hence as of December 31, 2005 deferred revenues of approximately $14,800 have been recorded related to such memberships.

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

8. LONG-TERM DEBT

On November 15 and 17, 2004, the Company borrowed $590,000 and $1,042,000, respectively, from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payments of principal and interest are $5,694 and $10,056, respectively. The note is secured by the Company's properties located at 2023 Sable Lane, San Antonio and at 410 N. Sam Houston PKWY E., Houston, Texas. On November 30, 2004, the Company borrowed $900,000 from an unrelated individual at an 11% annual interest rate over a 10 year term. The monthly payment of principal and interest is $9,290. The note is secured by the Company's properties located in 3501 Andtree, Austin and at 5718 Fairdale, Houston, Texas. On December 30, 2004, the Company borrowed $1,270,000 from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payment of principal and interest is $12,256. The note is secured by the Company's property located at 3113 Bering Drive, Houston, Texas. The money received from this financing was used for the acquisition

8. LONG-TERM DEBT (CONTINUED)

and renovation of the New York club. On June 17, 2005, the Company borrowed $160,000 from a shareholder and $100,000 from an unrelated individual at an annual interest rate of 12% and 11% over 3 and 10 year term, respectively. On July 22, 2005, the Company entered into a secured convertible debenture with one of its shareholders for a principal sum of $660,000, which includes the loan on June 17, 2005 in the amount of $160,000. The term is for three years and interest rate is at 12% per annum. The debenture matures on August 1, 2008. The Company also issued 50,000 warrants at $3.00 per share in relation to this debenture. The debenture is secured by Company's ownership in Citation Land, LLC and RCI Holdings, Inc., both are wholly owned subsidiaries. In July 2005, the Company received additional borrowing in the amount of $100,000 from the same unrelated individual who advanced $100,000 in June 2005, and with whom the Company had two existing notes. The term is for 10 years and the interest rate is 11% per annum. On August 15, 2005, the notes were amended and the amounts from June and July were included in one of the notes, for a combined total of $1,341,520 payable to this individual.

9. ACQUISITIONS AND DISPOSITIONS

On January 18, 2005, the Company completed the acquisition of Peregrine Enterprises, Inc., which operated the Paradise Club in Midtown Manhattan, New York (50 West 33rd Street). The total consideration was for $7.775 million for the assets and stock of the former Paradise Club, which had operated on the site for more than a decade. The transaction consisted of $2.5 million in cash and $5.125 million in a promissory note bearing simple interest at the rate of 4.0% per annum with a balloon payment at end of five years, part of which is convertible to restricted shares of Rick's Cabaret common stock at prices ranging from $4.00 to $7.50 per share, and transaction costs of $150,000. The results of operations of the club are included in our consolidated statement of operations from January 18, 2005.

The following information summarizes the initial allocation of fair values assigned to the assets and liabilities at the acquisition date based on a preliminary valuation. Subsequent adjustments may be recorded upon the completion of the valuation and the final determination of the purchase price allocation.

Current assets	$ 150,000
Discounted lease	43,022
Non-compete agreement	100,000
License	7,481,978
Net assets acquired	$7,775,000

The following unaudited pro forma information presents the results of operations as if the acquisition had occurred as of the beginning of the immediate preceding period. The pro forma information is not

DECEMBER 31, 2005

9. ACQUISITIONS AND DISPOSITIONS (CONTINUED)

necessarily indicative of what would have occurred had the acquisition been made as of such periods, nor is it indicative of future results of operations. The pro forma amounts give effect to appropriate adjustments for the fair value of the assets acquired, amortization of intangibles and interest expense.

	FOR THE THREE MONTHS ENDED DECEMBER 31, 2005	2004
Revenues	$5,779,735	$3,818,211
Net income (loss) from continuing operations	$ 525,396	$ (171,017)
Net income (loss)	$ 525,396	$ (252,485)
Net income (loss) per share - basic	$ 0.12	$ (0.05)
Net income (loss) per share - diluted	$ 0.11	$ (0.05)

10. SUBSEQUENT EVENTS

On January 18, 2006, 54,000 stock options were exercised by the Company's employees with a total proceeds of $138,240.

On February 6, 2005, the Company issued a Convertible Debenture (the "Debenture") to an unrelated investment group for the principal sum of $1,000,950 bearing interest at the rate of 10% per annum, with a maturity date of February 1, 2009. Under the terms of the Debenture, the Company is required to make three quarterly interest payments beginning May 1, 2006. Thereafter, the Company is required to make nine equal quarterly principal and interest payments. At any time after 366 days from the date of issuance of this Debenture, the Company has the right to redeem the Debenture in whole or in part at any time during the term of the Debenture. At the election of the Holder, the Holder has the right at any time to convert all or any portion of the principal or interest amount of the Debenture into shares of our common stock at a rate of $4.75 per share.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN 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-QSB to make applicable and take advantage of the safe harbor provision of the Private Securities Litigation Reform

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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-QSB 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 affects 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 presently conduct our business in two different areas of operation:

1. We own and operate upscale adult nightclubs serving primarily businessmen and professionals. Our nightclubs offer live adult entertainment, restaurant and bar operations. We own and operate eight adult nightclubs under the name "Rick's Cabaret" and "XTC" in Houston, Austin and San Antonio, Texas; Minneapolis, Minnesota; Charlotte, North Carolina, and New York, New York. We also own and operate a sports bar called "Hummers" and an upscale venue that caters especially to urban professionals, businessmen and professional athletes called "Club Onyx" in Houston. No sexual contact is permitted at any of our locations.

2. We have extensive internet activities.

   a) We currently own two adult Internet membership Web sites at <u>www.couplestouch.com</u> and <u>www.xxxpassword.com</u>. We acquire <u>www.xxxpassword.com</u> site content from wholesalers.

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

Our nightclub revenues are derived from the sale of liquor, beer, wine, food, merchandise, cover charges, membership fees, independent contractors' fees, commissions from vending and ATM

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machines, valet parking, and other products and services. Our internet revenues are derived from subscriptions to adult content internet websites, traffic/referral revenues, and commissions earned on the sale of products and services through Internet auction sites, and other activities. Our fiscal year end is September 30.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2005 AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2004

For the three months ended December 31, 2005, we had consolidated total revenues of $5,779,735 compared to consolidated total revenues of $3,332,211 for the three months ended December 31, 2004, an increase of $2,447,524 or 73.45%. The increase in total revenues was primarily attributable to the revenues generated by our new clubs in Charlotte, North Carolina, and New York, New York, in the amount of $1,625,499; by the increase in revenues generated by our existing club businesses in the amount of $798,237, a 25.39% increase; and by the increase in internet operations in the amount of $23,788, a 12.70% increase, from a year ago. Total revenues for same-location-same-period of club operations increased to $3,943,217 for the three months ended December 31, 2005 from $3,143,147 for same period ended December 31, 2004. The increase was primarily attributable to the increase in revenues in our club operations.

The cost of goods sold for the three months ended December 31, 2005 was 12.27% of total revenues compared to 11.94% for the three months ended December 31, 2004. The increase was due primarily to the addition of Rick's clubs, which have a higher cost of goods sold, offset by a reduction in costs of maintaining our internet operations. The cost of goods sold for the club operations for the three months ended December 31, 2005 was 12.58% compared to 12.40% for the three months ended December 31, 2004. We continue a program to improve margins from liquor and food sales and food service efficiency. The cost of goods sold from our internet operations for the three months ended December 31, 2005 was 4.24% compared to 4.16% for the three months ended December 31, 2004. The cost of goods sold for same-location-same-period of club operations for the three months ended December 31, 2005 was 13.42%, compared to 12.41% for the same period ended December 31, 2004.

Payroll and related costs for the three months ended December 31, 2005 were $1,669,711 compared to $1,207,948 for the three months ended December 31, 2004. Payroll for same-location-same-period of club operations increased to $1,000,411 for the three months ended December 31, 2005 from $913,759 for the same period ended December 31, 2004. The increase was primarily due to an increase in entertainers payroll in our club in Minnesota. Management currently believes that its labor and management staff levels are appropriate.

Other general and administrative expenses for the three months ended December 31, 2005 were $2,616,677 compared to $1,571,266 for the three months ended December 31, 2004. The increase was due primarily to increase in rent, indirect operating expenses, travel and lodging, and utilities from adding new locations in New York, New York and Charlotte, North Carolina.

Interest expense for the three months ended December 31, 2005 was $263,052 compared to $89,115 for the three months ended December 31, 2004. The increase was attributable to our obtaining new debt to finance the purchase and renovation of the club in New York. As of December 31, 2005, the balance of long-term debt was $13,105,906 compared to $7,721,861 a year earlier.

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Net income for the three months ended December 31, 2005 was $525,396 compared to net loss of $6,485 for the three months ended December 31, 2004. The increase in net income was primarily due to increase in overall revenues in our existing clubs. Net income for same-location-same- period of club operations increased to $1,011,689 for the three months ended December 31, 2005 from $541,441 for same period ended December 31, 2004, or by 86.85%.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2005, we had a working capital deficit of $1,595,011 compared to a deficit of $2,047,725 at September 30, 2005. The increase in working capital was primarily due to decreases in accounts payable, accrued liabilities, and line of credit as a result of increased cash flow from operations. The value of available-for-sale marketable securities remained the same.

Net cash provided by operating activities in the three months ended December 31, 2005 was $427,548 compared to net cash used of $39,023 for the nine months ended December 31, 2004. The increase in cash provided by operating activities was primarily due to increase in net income and depreciation and amortization and a decrease in changes in operating assets and liabilities.

We used $123,050 of cash in investing activities during the three months ended December 31, 2005 compared to $107,592 during the three months ended December 31, 2004. $223,407 of cash was used in financing activities during the three months ended December 31, 2005 compared to $3,419,698 provided during the three months ended December 31, 2004.

Historically, our need for capital was a result of construction or acquisition of new clubs, renovation of older clubs, and investments in technology. Historically, we have also utilized capital to repurchase our common stock as part of our share repurchase program.

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

On November 15 and 17, 2004, we borrowed $590,000 and $1,042,000, respectively, from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payments of principal and interest are $5,694 and $10,056, respectively. The note is secured by our properties located at 2023 Sable Lane, San Antonio and at 410 N. Sam Houston Pkwy. E., Houston, Texas. On November 30, 2004, we borrowed $900,000 from an unrelated individual at the rate of 11% per annum for a 10 year term. The monthly payment of principal and interest is $9,290. The note is secured by our properties located at 3501 Andtree, Austin and at 5718 Fairdale, Houston, Texas. On December 30, 2004, we borrowed $1,270,000 from a financial institution at an annual interest rate of 10% over a 10 year term. The monthly payment of principal and interest is $12,256. The note is secured by our property located at 3113 Bering Drive, Houston, Texas. The money received from this financing was used for the acquisition and renovation of the New York club.

We entered into a promissory note on January 18, 2005, for $5,125,000 bearing simple interest at the rate of 4.0% per annum with a balloon payment at the end of five years, part of which is convertible to restricted shares of Rick's Cabaret common stock at prices ranging from $4.00 to $7.50 per share.

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On June 10, 2005, we entered into a promissory note for $325,000 bearing interest at a rate of 7% per annum for a seven year term. The note is secured by liens upon the assets of and hereafter acquired assets of RCI Entertainment (North Carolina), Inc.

On June 17, 2005, we borrowed $160,000 from a shareholder and $100,000 from an unrelated individual at an annual interest rate of 12% and 11% over 3 and 10 year term, respectively.

On July 22, 2005, we entered into a secured convertible debenture with one of its shareholders for a principal sum of $660,000, which includes the loan on June 17, 2005, in the amount of $160,000. The term is for three years and the interest rate is 12% per annum. The debenture matures on August 1, 2008. We also issued 50,000 warrants at $3.00 per share in relation to this debenture. The debenture is secured by our ownership in Citation Land, LLC and RCI Holdings, Inc., both of which are wholly owned subsidiaries.

In July 2005, we received additional borrowings in the amount of $100,000 from the same unrelated individual who advanced $100,000 in June 2005, and with whom we had two existing notes. The term is for 10 years and the interest rate is 11% per annum. On August 15, 2005, the notes were amended and the amounts from June and July ($200,000) were included in one of the notes, for a combined total of $1,341,520 payable to this individual.

In the opinion of management, working capital is not a true indicator of the financial status. Typically, businesses in the industry carry current liabilities in excess of current assets because the business receives substantially immediate payment for sales, with nominal receivables, while accounts payable and other current liabilities normally carry longer payment terms. Vendors and purveyors often remain flexible with payment terms providing businesses with opportunities to adjust to short-term business down turns. The Company considers the primary indicators of financial status to be the long-term trend of revenue growth and mix of sales revenues, overall cash flow, profitability from operations and the level of long-term debt.

We have available a $100,000 unsecured line-of-credit with a bank other than our existing debt. Interest is payable monthly on the outstanding balance at a floating rate of prime plus 1.5%. This arrangement is subject to renewal in June 2006. The amount outstanding under this agreement at December 31, 2005 was $85,233, with the remainder available for future borrowing. However, 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.

In the event the sexually oriented business industry is required in all states to convert the entertainers who perform at our locations, from being independent contractors to employee status, we have prepared alternative plans that we believe will protect our profitability. We believe that the industry standard of treating the entertainers as independent contractors provides sufficient safe harbor protection to preclude payroll tax assessment for prior years.

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 its high level of name recognition and prestige within the marketplace.

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 club operations can continue to grow organically and through careful entry into markets and demographic segments with high growth potential. Upon careful market research, we may open new clubs. As is the case with the acquisition of the New York and North Carolina clubs, we may 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. We may form joint ventures or partnerships to reduce start-up and operating costs, with our Company contributing assets in the form of our brand name and management expertise. We may also develop new club concepts that are consistent with our management and marketing skills. We may also acquire real estate in connection with club operations, although some clubs may be on leased premises.

We also expect to continue to grow our Internet profit centers and plan to focus in the future on high-margin activities that leverage our marketing skills while requiring a low level of start-up expense and ongoing operating costs.

Item 3. CONTROLS AND PROCEDURES.

As of the end of the period of this report, our principal executive and principal financial officers carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic reports to the Securities and Exchange Commission. There have been no significant changes in our internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out its evaluation.

PART II OTHER INFORMATION

Item 5. OTHER INFORMATION.

Subsequent Event. On February 6, 2005, we issued a Convertible Debenture (the "Debenture") to an unrelated investment group for the principal sum of $1,000,950 bearing interest at the rate of 10% per annum, with a maturity date of February 1, 2009. Under the terms of the Debenture, we are required to make three quarterly interest payments beginning May 1, 2006. Thereafter, we are required to make nine equal quarterly principal and interest payments. At any time after 366 days from the date of

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issuance of the Debenture, we have the right to redeem the Debenture in whole or in part at any time during the term of the Debenture. At the election of the holder, the holder has the right at any time to convert all or any portion of the principal or interest amount of the Debenture into shares of our common stock at a rate of $4.75 per share.

The proceeds of the Debenture will be used to payoff certain debt and increase our working capital.

Item 6. EXHIBITS.

Exhibit 31.1 - Certification of Chief Executive Officer and 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 and 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: February 13, 2006

By: /s/ Eric S. Langan

Eric S. Langan
Chief Executive Officer and Chief Financial Officer